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**Board of Directors
Fourteenth Annual Study
February 1987**

KORN/FERRY INTERNATIONAL

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Introduction

The director liability crisis is in its third year. But the crisis in the boardroom today does not hinge on liability alone. A scarcity has developed, a real shortage of qualified directors. This shortage, while aggravated by the liability crisis of the past three years, is not about to go away. It raises serious issues that include director work load, responsibility and compensation. If the board of directors is to survive in its present form, these issues must be addressed. Consider the following disquieting news:

- Seventy-one percent of the chairmen surveyed believe there is a problem finding and attracting qualified outside directors.
- Seventy-seven percent say that the problem has not diminished since last year.
- More than one out of five companies (22 percent) reported that a prospective director had refused the offer of a board seat.
- Of those companies experiencing such a refusal, 29 percent were turned down more than one time.

These statistics come from America's most significant corporations. Quite simply, corporate America believes that there is not enough talent to go around. Our study indicates that:

- Seventy-four percent of the corporations surveyed already have CEOs sitting on their boards.
- Ninety percent of the companies surveyed define "broad management experience" as the most critical factor in selecting board members.
- Fifty-nine percent place a premium on personal stature.
- Finally, 36 percent of the CEOs surveyed said they would not accept any additional board seats.

Major corporations are going after the same narrowly defined group of qualified individuals—namely the CEOs and COOs of other major corporations. And more and more often these executives are saying no.

Half of the chief executives surveyed believe that CEOs like themselves should limit their outside board duties to one or two seats. Ninety-two percent believe that they should not sit on more than four boards. Why

this limit? Because directorships are increasingly being perceived as trouble. The director's job has become more demanding and more time-consuming. Seventy percent of the chairmen surveyed feel that their directors are probing for additional information and initiating extensive discussions on the impact of strategic plans and operations. And this is as it should be. Perhaps we have the turmoil of the liability crisis to thank for these renewed endeavors.

Coming to Grips with the Liability Crisis

Shareholder suits and legal actions against boards and/or their directors have been piling up. In response, insurance companies raised D&O premiums for 82 percent of the 532 companies we surveyed. Premium boosts averaged 570 percent! This followed a 362 percent jump in rates the year before. Many companies faced their second consecutive hike in two years. To make matters worse, half of those surveyed were paying more but getting an average of 43 percent less coverage. In many cases, policies were rewritten with exclusions incorporated to severely limit the types of claims covered. And a significant number of policies were not renewed or were cancelled.

As the crisis intensified, we witnessed corporate America beginning to grapple with these problems. Indeed, the worst may well be behind us. Some headway was made through such laws as the Delaware statute that allows companies to limit or even eliminate financial liability for directors in cases where it can be shown that they did not deliberately act in bad faith.

In our current study, we found that 77 percent of the CEOs surveyed believe that the Delaware statute will at least partially rectify the crisis in the boardroom. Numerous companies incorporated in Delaware are planning to ask their shareholders to amend the bylaws in order to limit director liability, as are many respondents in other states where similar legislation is expected to be enacted.

For the time being, at least, it seems that the boards have weathered this crisis. And they seem to have learned a great deal from it. They have become more involved in a number of areas. This year, 73 percent said they have been concentrating their efforts on maximizing shareholder value, and 52 percent are probing for more information about the quality of the company's product or service. Employee relations and foreign competition are also matters now routinely treated at the board level, as are the selection of new board members, audit reviews and management succession.

Serious Work, Hard Work, Important Work

Of necessity, the director of the eighties is more involved in the corporation's affairs. The director has become a vulnerable figure who represents the interests of the shareholders and must navigate between

the often conflicting interests of various interested constituencies—management, employees, suppliers, governmental bodies and the community in which the corporation has a stake.

It's been a very long 10 years since a directorship was considered a ceremonial post, akin to club membership. It is serious work, hard work and important work.

But, until recently, board seats were considered easy-to-fill sinecures, and evidently corporations are not yet accustomed to regarding a directorship in the same light as an executive position, even though that is exactly what most directorships are.

How can corporations find the kind of responsible, experienced management talent they need in the boardroom? It must be noted that while corporate America routinely turns to executive search to identify top level executives when they don't have an internal candidate, only 12 percent of the companies surveyed report using search for directorships. However, 20 percent of the \$5 billion-and-over companies use executive search to find board members, and historically they have been the trend-setters.

As the demand on the chairmen's time devoted to board matters grows (it now stands at 175 hours a year, up from 160 hours the year before), they will have to look for ways to lighten the burden. And using professional search help to identify prospective directors is one significant way to save time. At Korn/Ferry, we've found that between 40 percent and 50 percent of our executive search work is at the seniormost management levels, for CEOs, COOs and top level general management. This is precisely the pool of qualified individuals who could make tremendous contributions as board members.

The Question of Compensation

Virtually every board member we know says compensation is not the primary issue. And we agree. But some rethinking of compensation issues is in order. There is a striking ambivalence in the attitude of corporations and directors towards the importance of compensation. Three-quarters of the CEOs surveyed believe that directors are adequately paid. (This percentage has fluctuated between 69 and 91 percent since 1983, when the question was first asked.) And yet, despite this expressed satisfaction, the level of compensation continues to increase year after year. In fact, each year, corporations on average increased compensation *more* than they had anticipated the previous year. Over the past decade, directors' fees have increased an average of 19 percent more than projected increases over the same period.

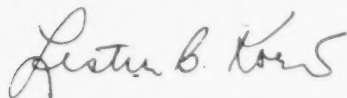
Is the issue of compensation directly related to the search for quality directors? Increasingly, we would answer yes, although not unequivocally. In our survey, the majority of CEOs report that there is a problem finding and attracting qualified directors, and 42 percent feel that

increasing the level of compensation is the way to maintain a high quality board. If directors are being asked to participate more fully in the management process, to perform increased committee work, in a more formalized arrangement, then they should receive commensurate remuneration. We believe compensation can and will be related directly to a busy director's "making time" for these now more onerous duties. Billion dollar companies that consistently have been the trend-setters when it comes to matters of corporate governance pay their directors about 20 percent more than the overall average, to reflect more accurately the reality of their redefined responsibilities. And where they chart a course, other companies can be expected to follow.

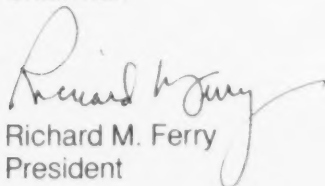
What we now call compensation was referred to, not so long ago, as an "honorarium," that is, a token payment for services more symbolic than real. As the director's job became more serious, the rewards, and of course the risks, for his services were bound to increase. And as competition for talent heats up, higher compensation will be one way for companies to ensure that they are attracting the best.

Interestingly, we are seeing the emergency of a trend illustrative of the evolving relationship between compensation and the enhanced role of the director in the corporation. Stock options for directors, which were largely considered a matter of "conflict of interest" a few years ago, are beginning to gain acceptance as a part of directors' compensation packages. In 1984, 1.1 percent of companies approved of stock options; in 1985 the figure rose to 3.1 percent and now it stands at eight percent. It makes sense.

Today 81 percent of the corporations surveyed think that directors should own some stock in the company. And, in fact, 95 percent report that directors do own some stock. Stock ownership gives directors a real stake in the business for which they are being held increasingly accountable. Owning stock enhances their ability to think like shareholders, and that's good for everyone.



Lester B. Korn
Chairman



Richard M. Ferry
President

February 25, 1987

SUMMARY OF FINDINGS—FOURTEENTH ANNUAL STUDY

On a question-by-question basis, the following are the key findings of the Korn/Ferry International Fourteenth Annual Board of Directors Study.

1. Size of Board (Table 1)

Corporate boards, on the average, are composed of 13 directors, a decrease from the 14 members reported last year, but equal to the average of 13 reported in previous years. Board size, however, does vary with company size and type of business. The largest boards are found among banks and other financial institutions, which now average 18 members, although this is a decline from the 20 members reported in 1985. Smaller companies with revenues of under \$200 million have an average of only eight board members, down from 10 last year. The \$5 billion-and-over industrials gained one director, to 15 members.

2. Inside Directors vs. Outside Directors (Table 1)

After eight consecutive years of corporations reporting an average of four inside directors, the number of inside directors declined to an average of three. Outside directors remained at an average of 10, further indicating the strong preference for outside leadership.

3. Is the Chairman Also the CEO? Is the CEO Also the COO? (Table 2)

Seventy-seven percent of this year's respondents report that their chairman is also the chief executive officer, down from 80 percent last year, but the same as reported in 1984 and 1983. This combination of duties occurs most frequently (91 percent) among retailers and among the billion dollar companies (85 percent). Thirty-eight percent of the respondents report that their chief executive officer is also their chief operating officer, up from 36 percent in 1985.

4. Board Composition (Table 3)

Directors are drawn from two primary sources: chief executive and chief operating officers of other companies (74 percent) and retired executives of other companies (67 percent).

Directors from these two sources are even more predominant on the boards of billion dollar companies, 85 percent of which include at least one CEO/COO from another company and 79 percent of which include at least one retired executive from another company. (Senior executives of other companies declined to 46 percent as a result of the addition of the new category "CEO/COO of other companies.") The prevalence of academicians on the board also decreased to 50 percent this year from the 55 percent reported in 1985. Retired or previously employed corporate officers declined as representatives on all boards as did the "professional" director and commercial bankers. Attorneys who do not provide

legal services for the company and major shareholders who are not officers of the company both increased their representation on corporate boards (Table 3A).

Representation among women dipped slightly to 43 percent compared with 45 percent in 1985. Minority membership, on the other hand, increased by five percent, from 25 percent reported in 1985 to 30 percent this year. Women come primarily from the ranks of academia and senior officers of other companies; ethnic directors come from the ranks of academia and chief executive and chief operating officers of other companies (Table 3B).

For the first time insurance company boards report the highest number of women directors (63 percent), and retailers report the greatest number of ethnic minorities (55 percent). For both categories, banks and financial institutions followed, reporting 61 percent and 53 percent respectively.

5. Committees (Table 4)

The most prevalent standing committees in use remain audit (98 percent), compensation/personnel (91 percent), executive (80 percent) and nominating (58 percent). The compensation/personnel committee experienced the greatest percentage gain over the past year, increasing to 91 percent from 82 percent in 1985 (Table 4A).

With regard to the executive and nominating committees in particular, committee use can be correlated to company size. For example, the executive committee is less prevalent among smaller industrials (under \$400 million); only 57 percent have an executive committee compared with the overall average of 80 percent. Eighty percent of the \$5 billion-and-over companies have a nominating committee, while only 37 percent of the smallest industrials (under \$200 million) report its use. Of all companies with nominating committees, 23 percent report its active participation in the management succession process, about the same as last year. The compensation/personnel committee retains the predominant role in management succession, cited by 49 percent, followed by the executive committee (26 percent).

Twenty-five percent of the respondents report a benefits committee, down from 37 percent in 1985. Although 35 percent of all respondents report a finance committee, down from 38 percent last year, 49 percent of the \$5 billion-and-over corporations report its use.

Committee composition has not changed over the past 10 years, averaging between four and six directors. The average number of inside directors for all committees remains the same as in 1985. The average number of outside directors increased by one for the science/technology committee, but decreased by one for the executive committee. In addition to the benefits committee, audit and compensation/personnel committees continue to be composed entirely of outside directors (Table 4B).

The average number of committee meetings per year ranges from two to seven, with the finance committee holding an additional two meetings over last year's average number of five meetings, and two meetings more than all other committees. The audit, executive and corporate ethics committees increased their number of meetings in 1986 by one. The number of meetings for the science/technology committee increased to four, from two meetings reported in 1985 (Table 4C). Thirty-eight percent of all respondents feel that in order to improve productivity, there is a trend towards more committee-assigned tasks.

6. Compensation (Table 5)

As they have been since our study began, directors are predominantly paid on an annual plus per-meeting fee basis, with 83 percent of this year's respondents reporting its use (Table 5A). This method is most widely used by insurance companies (90 percent).

Industrials with \$200 to \$399 million in revenues lead all respondents in adhering to the annual fee only (21 percent). But overall, only 10 percent use this method, the same as in 1985.

At four percent, the per-meeting fee only remains the most infrequent mode of compensation.

Annual Plus Per-Meeting Fee (83 percent of the respondents)

For all outside directors compensated on an annual plus per-meeting basis, the average earnings reported were \$20,462, up from \$19,544 last year. Compensation has risen 20 percent from the \$16,990 average in 1982. Commensurately, the percentage of directors earning under \$11,000 has decreased substantially to nine percent, from 21 percent five years ago. At the same time, the percentage of those earning \$25,000 and over has more than doubled from 11 percent five years ago to 25 percent in 1986 (Table 5B).

The components of the \$20,462 total average annual compensation for all companies includes an annual fee of \$14,096 and a per-meeting fee of \$775, up from an \$11,000 annual fee and a \$627 per-meeting fee five years ago.

As would be expected, the larger the company, the higher the compensation. Directors of billion dollar industrial corporations earned an average of \$24,264 and directors of the \$5 billion-and-over companies earned an average of \$28,820, up from \$26,126 last year.

Industrials with under \$200 million in revenues reported the largest five-year increase in compensation, rising 63 percent from \$8,720 in 1982 to \$14,207 in 1986 (Table 5C).

In 1986, the upper quartile average for all responding directors was \$28,715 (Table 5C). The average upper quartile for billion dollar companies was \$31,025.

Annual Fee Only (10 percent of the respondents)

The average earnings of outside directors receiving only an annual fee increased 23 percent over the past five years, from \$16,100 to \$19,744. This year's average annual fee of \$19,744 was also 10 percent higher than the average fee reported last year. Of the respondents in this category, 46 percent pay \$20,000 and over. Five years ago, there were no outside directors receiving an annual fee above \$20,000.

Per-Meeting Fee Only (Four percent of the respondents)

Only 17 of the 1986 respondents use this method of compensation, generally industrials under \$200 million. The average per-meeting fee was reported at \$1,127, an 84 percent jump over last year's average of \$614, and a 145 percent rise over the per-meeting fee of \$460 reported five years ago.

7. Committee Compensation (Table 6)

Eighty-three percent of this year's participants and 87 percent of the billion dollar companies provided additional compensation to their outside directors for committee service.

For all committees, a greater percentage of members received a per-meeting fee than an annual fee, while a greater percentage of committee chairmen were compensated with an annual fee (Table 6A).

Total Annual Compensation

Including committee fees, the average total compensation for outside directors was reported at \$23,676. As expected, the larger the company, the higher the compensation. Directors of billion dollar corporations earn an average of \$28,686; directors of the \$5 billion-and-over companies earn an average of \$36,548.

The upper quartile average for all responding directors was \$35,960, with averages ranging from \$24,483 for industrials in the under \$200 million category to \$48,428 for \$5 billion-and-over companies (Table 6B).

8. Additional Compensation Information (Table 7)

Thirty-nine percent of participants, the same percentage that did so five years ago, indicated that they increased compensation for their outside directors during the past year, up from 34 percent in 1985. In 1986, the average increase was \$2,923, five percent higher than last year's average of \$2,777, but seven percent lower than the increase posted five years ago. The largest increase was reported by smaller industrials (\$200-\$399 million) who increased board compensation by \$4,107, a 75 percent jump over last year's increase (Table 7A). Twenty-five percent of respondents project a fee increase of an average \$2,757 for 1987 (Table 7B).

Seventy-five percent of this year's participants believe that outside directors are adequately compensated, a decrease from the 84 percent reported last year, but up from 69 percent in 1984.

As in 1985, retailers reported the most satisfaction with director compensation (86 percent).

Twenty-six percent of all respondents have outside directors who receive special consulting fees, up from 23 percent last year.

In 1985, average total compensation for the single highest-paid outside director at each company was \$28,572 for all board services exclusive of consulting arrangements. This represents a 32 percent increase over the \$21,720 reported five years ago. Fifty-five percent of the largest industrial companies (\$5 billion and over) compensate their highest-paid outside directors with payment in excess of \$40,000, as compared with 23 percent last year. The upper quartile average for all directors is \$46,665, up 12 percent from 1985 and up from \$36,550 five years ago. The upper quartile average for the \$5 billion-and-over companies soared to \$81,151, up from \$68,747 in 1985 (Table 7C).

Fifty-nine percent of the participants state that their board chairman has the primary responsibility for establishing board compensation, up from 53 percent the year before. The compensation committee has this responsibility at 38 percent of the companies (up from 33 percent). And in 11 percent of the cases, the nominating and executive committees are responsible (Table 7D).

Benefits

Benefits continue to be significant in compensation plans for outside directors. Accident insurance (41 percent), travel expense reimbursement for spouses and life insurance (each 23 percent) remain commonly included. Forty-seven percent offer matching educational gifts, up from 40 percent in 1982 when respondents were first questioned. Travel expense reimbursement was provided by 92 percent of the respondents compared with 86 percent in 1982. Eight percent offer stock options to their outside directors, up from three percent last year. The practice of providing director's liability insurance decreased to 84 percent from 93 percent in 1985 (Table 7E).

The option of deferring board fees until retirement is offered by a majority of responding companies, 67 percent, about the same as last year, compared with 55 percent five years ago (Table 7E). While only 32 percent of the smallest industrials (under \$200 million) have an income deferral plan, 87 percent of the largest companies (\$5 billion and over) report such an option, up from 80 percent last year.

Twenty-five percent of all respondents provide a pension/retirement plan, up from 14 percent five years ago. This option varies with company size. Thirty-five percent of the billion dollar corporations and 43 percent of the \$5 billion-and-over companies report having a retirement program, compared with only 10 percent of companies with revenues under \$200 million.

Eighty-one percent of respondents believe that all directors should own some company stock, up from 75 percent last year. Of the 81 percent who believe that all directors should own stock in the company, the average minimum number of shares indicated was 724. Ninety-five percent of the participants stated that outside directors do, in fact, own shares of company stock. And in most cases, all of their directors own shares. Company size was not a factor.

Liability Insurance

Ninety-one percent of all participants currently have director liability insurance and nine percent have been denied coverage within the past year. Of the companies whose insurance policies were up for renewal in 1986, 82 percent responded that director liability insurance premiums were increased during the past year, on an average of 570 percent, compared with the 362 percent average increase reported by 68 percent last year (Tables 7F and 7G).

The smallest industrials (under \$200 million) and retailers led all others in the percent of increase, 796 percent and 744 percent respectively, up from 208 and 337 percent, respectively, in 1985. Fifty percent of all respondents experienced a decrease in total dollar coverage, up from 27 percent in 1985. Coverage on average fell 43 percent from \$42 million to \$24 million (Table 7G).

The decrease in total dollar coverage was smallest for retailers, who averaged a 29 percent decline (from \$35 million to \$24 million) as compared to the 43 percent average for all respondents. This may be due, in fact, to the 56 percent decline reported last year by retailers, the highest of all respondents.

Thirty percent of the total respondents are considering self-insurance, compared with 19 percent last year. This figure rises to 46 percent for the \$5 billion-and-over companies. When asked if respondents had been approached to join a consortium for establishing a captive company, 52 percent of all participants and 65 percent of the billion dollar companies reported in the affirmative. Coincidentally, 52 percent would consider joining if asked.

9. Board Practices and Policies (Table 8)

For the tenth consecutive year, study respondents average eight regular board meetings per year (Table 8A). Banks and other financial institutions meet most frequently, averaging 10 times per year.

As in 1985, an outside director this year spent an average of 114 hours, including time for review, preparation and travel in addition to meetings (Table 8B). Twenty-three percent of respondents reported devoting more than 130 hours to board-related activities.

Once again, there is a direct correlation between company size and time devoted to board matters. The largest industrials (\$5 billion-and-over

corporations) demanded 153 hours of their outside directors, compared with an average of 94 hours for the smallest industrials (under \$200 million). In addition to the large industrials (\$3 billion and over), banks and other financial institutions, insurance companies and service corporations all increased time spent on board activities over last year's averages (Table 8B).

Predictably, chairmen spend considerably more time on board duties than their directors, and devoted an average of 175 hours in 1986, up from 164 hours in 1985. Chairmen of the smallest industrial companies reported a low of 120 hours. The billion-dollar-plus corporate chairmen reported spending an average of 181 hours. Time spent on board duties rose to 216 hours among the chairmen of the \$5 billion-and-over firms.

If compensated on an annual plus per-meeting fee basis, outside directors earned an average of \$179 per hour this year, up from \$173 last year, and up from the 1982 hourly rate of \$138. As in the past, the highest hourly rate, \$245 per hour, went to directors of retailing companies. Again, insurance companies paid the lowest, \$141 per hour.

With committee fees taken into account, the overall average hourly rate for outside directors was \$208.

10. Locating Outside Directors (Table 9)

Outside directors resigned from the boards of 29 percent of responding companies during the past year. Retirement was again the major reason for resignation, but this year only 26 percent of our respondents cited it, a decrease from 55 percent in 1985 and 63 percent in 1982. As a reason for resignation, time demands increased to 26 percent, followed by potential for conflict of interest, cited by 20 percent, each increasing from 16 percent in 1985. Banks and financial institutions had the highest percentage of outside director resignations with 41 percent.

Forty-nine percent of the respondents named one or more new outside directors to their boards during the past year, down from 51 percent in 1985. Twenty-four percent added new inside directors (Table 9A).

To fill board vacancies, the respondents continue to rely predominantly on recommendations by the chairman and by other board members (81 percent). Fifty-eight percent reported use of the nominating committee to identify and select new directors, a decrease from 64 percent in 1985, but about the same as reported in 1984 (Table 9B). That percentage rose to 68 percent among the billion dollar corporations and to 78 percent among the \$5 billion-and-over corporations.

Respondents mentioned recommendations of other corporate officers (38 percent) and referrals from executive acquaintances (11 percent) to fill board slots, about the same levels reported in 1985. The use of executive search firms was cited by 12 percent of the total respondents, and 17 percent of the billion dollar companies (Table 9B). Of the largest

industrials, 26 percent used executive search as a means of finding new board members, up dramatically from 15 percent in 1985.

As in 1985, ninety percent of the respondents this year cited broad management experience as the primary consideration in selecting prospective directors, followed by personal stature (59 percent). Strong financial skills and specific industry experience were cited equally as important qualities by 34 percent of the respondents.

Twenty-two percent of this year's respondents noted that board candidates declined to serve on their boards, up from 20 percent last year, and 18 percent in 1982 (Table 9C). Retailers experienced the most refusals (32 percent), nearly double the 17 percent reported last year.

Time commitment, cited by 65 percent of the respondents, is the predominant reason given for declining an invitation to serve on corporate boards, up from 60 percent in 1985, but it was less of a factor than in 1982 when it was the primary cause for 70 percent of the refusals. For companies with revenues of more than \$5 billion, 92 percent mentioned time commitment as the primary reason for declining to serve on boards, up from 72 percent last year. Serving on too many boards and a conflict of interest were cited by 29 percent and 22 percent of the respondents respectively. The issue of rising legal liability jumped from three percent in 1985 to 14 percent this year (Table 9C).

Seventy-seven percent of respondents have a mandatory retirement age policy for directors. Only 49 percent of companies with revenues under \$200 million have such a policy, compared with 89 percent of the billion dollar companies and 97 percent of the \$5 billion-and-over companies. For the 11th consecutive year, the average retirement age for outside directors remains 70. Similar to last year, the average age for inside directors is 67, and 69 for board chairmen.

The average age of the CEO is 57 and 59 for the respondents' outside directors. The average age of the youngest outside director is 48; the oldest, 69.

11. Board Issues (Table 10)

When asked to rank the relative importance of the issues facing corporate boards today, 51 percent of the respondents ranked financial results as the most significant issue. Seventy-five percent ranked it among the top two issues and 86 percent among the top three.

Strategic planning was the second most important issue, ranked most important by 21 percent and in the top three by 66 percent. Financing/capitalization was ranked #1, #2 or #3 by 28 percent.

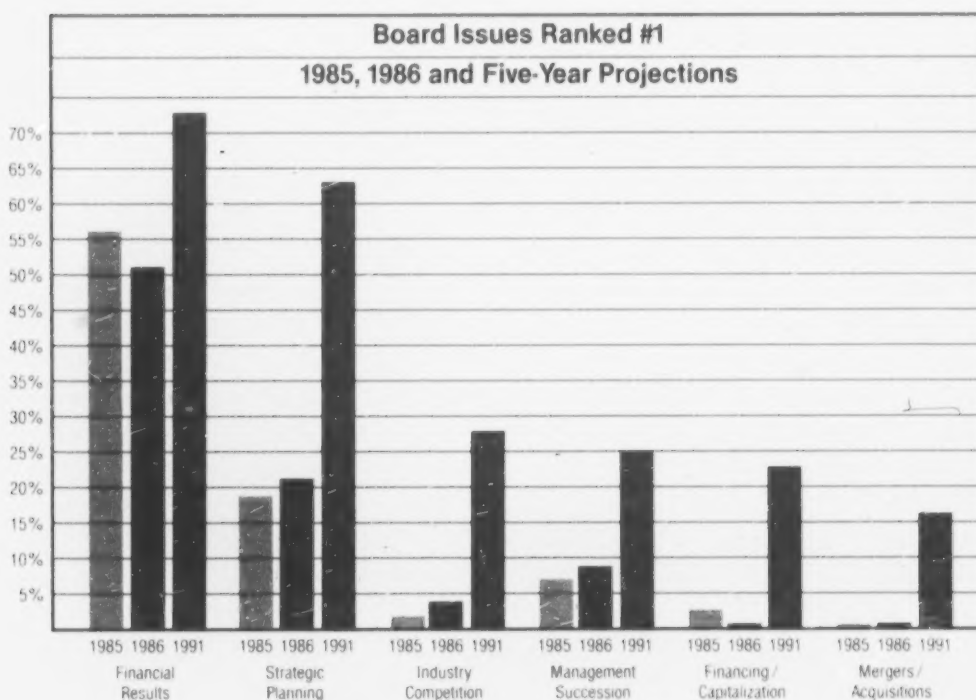
Other issues of significance to boards include management succession, which was ranked in the top three by 27 percent of the respondents, up

from 20 percent in 1985. Industry competition, both domestic and global, was cited by 20 percent (Table 10).

Corporations continued to show a drop in concern for day-to-day operations since 1984 (30 percent) and 1985 (24 percent) to 18 percent in 1986. The smallest industrials, with revenues under \$200 million, were the most concerned with day-to-day operations (29 percent) compared with only 12 percent of the billion dollar corporations.

Seventy-five percent of the respondents spend the most board time on issues related to financial results. Forty-nine percent are most occupied with strategic planning, followed by the issues of mergers and acquisitions and day-to-day operations (each 15 percent). Yet, 24 percent of the smallest industrials spend time on day-to-day operations and 22 percent on mergers and acquisitions.

Seventy-three percent of the companies believe that five years from now the top issue will be financial results, up substantially from the 57 percent who ranked it first last year. Strategic planning was projected to be the most important board issue in 1991 by 63 percent and industry competition by 28 percent.



12. Participating Companies (Table 11)

- Size of Participating Companies (Table 11A)
- Stock Exchange of Participating Companies (Table 11B)
- Type of Participating Companies (Table 11C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS**What is the present number of board members?**

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under \$200 million	2	6	8
\$200 million-\$399 million	3	7	10
\$400 million-\$599 million	4	7	11
\$600 million-\$999 million	3	8	11
\$1 billion-\$2.999 billion	3	10	13
\$3 billion-\$4.999 billion	4	10	14
\$5 billion and over	4	11	15
Banks and other financial institutions	4	14	18
Insurance companies	3	12	15
Retailers	4	9	13
Service companies	3	8	11
Average	3	10	13

TABLE 2—CHAIRMAN ALSO CEO, CEO ALSO COO**Is the Chairman of the Board also the Chief Executive Officer?****Is the Chief Executive Officer also the Chief Operating Officer?**

	Chairman/CEO %	CEO/COO %
Yes	77.3%	38.3%
No	21.4%	59.4%
No response	1.3%	2.3%
TOTAL	100.0%	100.0%

TABLE 3—BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	% 1982	% 1985	% 1986
CEO/COO of other companies	—	—	74.2%
Retired executive (other companies)	66.3%	68.2%	67.4%
Academician	50.4%	54.5%	49.7%
Senior executive (other companies)	88.2%	81.8%	46.0%
Woman	41.2%	45.0%	42.9%
Retired or previously employed corporate officer	46.8%	46.4%	40.2%
Attorney (does not provide legal services for the company)	33.7%	31.5%	35.3%
Major shareholder (not officer of the company)	30.4%	29.4%	30.9%
Ethnic minority member	23.2%	25.4%	29.5%
Former government official	27.2%	29.6%	27.6%
Commercial banker	33.6%	30.8%	25.0%
"Professional" director	19.5%	28.2%	25.0%
Investment banker	23.7%	24.2%	24.3%
Attorney (provides legal services for the company)	28.2%	24.9%	23.7%
Non-U.S. citizen	17.0%	14.0%	13.0%
International executive (American)	7.5%	8.7%	6.2%
Consumer group representative	—	1.7%	1.4%
Employee representative	—	2.2%	1.0%

— FIVE-YEAR TREND —

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	29.4%	29.6%
Senior executives (other companies)	18.6%	11.8%
Former government officials	14.5%	7.2%
CEO/COO (other companies)	12.2%	19.7%
Major shareholders (not officers of the company)	8.6%	1.3%
Attorneys (do not provide legal services)	7.2%	14.5%

TABLE 4—COMMITTEES**4A. Which of the following standing committees does the board have?**

Committee	% 1982	% 1985	% 1986
Audit	98.2%	97.2%	97.5%
Compensation/Personnel	86.3%	82.2%	90.5%
Executive	78.4%	78.2%	80.4%
Nominating	56.6%	59.2%	57.9%
Finance	35.7%	38.2%	34.6%
Benefits	32.9%	36.5%	25.0%
Public affairs	11.8%	10.6%	9.9%
Corporate ethics	8.0%	5.9%	7.2%
Science/Technology	—	2.4%	3.7%

└ FIVE-YEAR TREND ┘

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation/Personnel	0	4	4
Executive	2	3	5
Nominating	1	4	5
Finance	2	4	6
Benefits	0	4	4
Public affairs	1	5	6
Corporate ethics	1	4	5
Science/Technology	1	4	5

4C. How many committee meetings were held during the past 12 months?

Committee	1982 Average Number of Meetings	1985 Average Number of Meetings	1986 Average Number of Meetings
Audit	3	3	4
Compensation/Personnel	4	4	4
Executive	4	4	5
Nominating	2	2	2
Finance	4	5	7
Benefits	3	3	3
Public affairs	3	3	3
Corporate ethics	2	2	3
Science/Technology	—	2	4

└ FIVE-YEAR TREND ┘

TABLE 5—COMPENSATION**5A. How are board members compensated?**

Compensation	% 1982	% 1985	% 1986
Annual plus per-meeting fee (see Table 5B and 5C for amounts) . . .	84.8%	85.6%	83.1%
Annual fee only	11.8%	10.4%	9.7%
Per-meeting fee only	2.5%	1.9%	3.5%
No response	0.9%	2.1%	3.7%
TOTAL	100.0%	100.0%	100.0%

└ FIVE-YEAR TREND ┘

5B. Annual Plus Per-Meeting Fee

Total Average Annual Compensation	% 1982	% 1985	% 1986
Under \$7,000	5.5%	2.3%	2.3%
\$7,000–\$10,999	15.7%	8.7%	7.0%
\$11,000–\$13,999	16.3%	11.3%	10.0%
\$14,000–\$16,999	16.9%	13.2%	15.9%
\$17,000–\$19,999	14.5%	15.5%	14.3%
\$20,000–\$24,999	20.0%	25.5%	25.9%
\$25,000 and over	11.1%	23.5%	24.6%
TOTAL	100.0%	100.0%	100.0%
Average Total Annual Compensation	\$16,990	\$19,544	\$20,462

└ FIVE-YEAR TREND ┘

**5C. Annual Plus Per-Meeting Fee
(continued)**

Type and Size of Company	1982 Average Compensation	1986 Average Compensation	1986 Upper Quartile Average
Industrials			
Under \$200 million	\$ 8,720	\$14,207	\$22,768
\$200 million–\$399 million	\$11,900	\$15,560	\$22,386
\$400 million–\$599 million	\$14,580	\$17,011	\$22,060
\$600 million–\$999 million	\$15,430	\$20,593	\$27,188
\$1 billion–\$2.999 billion	\$18,300	\$21,279	\$27,223
\$3 billion–\$4.999 billion	\$26,760	\$26,447	\$32,270
\$5 billion and over	\$24,960	\$28,820	\$34,671
Banks and other financial institutions . . .	\$15,310	\$18,471	\$27,519
Insurance companies	\$13,950	\$18,863	\$26,530
Retailers	\$16,950	\$22,249	\$30,875
Service companies	—	\$20,653	\$28,542
Average	\$16,990	\$20,462	\$28,715

└ FIVE-YEAR
TREND ┘

TABLE 6—COMMITTEE COMPENSATION**6A. What is the average committee fee for outside directors?**

Committee	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	\$626	\$3,845
Compensation/Personnel	\$621	\$3,325
Executive	\$631	\$5,190
Nominating	\$625	\$2,839
Finance	\$658	\$5,290
Benefit	\$589	\$2,886

6B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1986 Average	1986 Upper Quartile
Industrials		
Under \$200 million	\$15,290	\$24,483
\$200 million-\$399 million	\$17,110	\$25,113
\$400 million-\$599 million	\$19,700	\$28,875
\$600 million-\$999 million	\$22,414	\$31,875
\$1 billion-\$2.999 billion	\$25,146	\$31,895
\$3 billion-\$4.999 billion	\$31,399	\$39,121
\$5 billion and over	\$36,548	\$48,428
Banks and other financial institutions . . .	\$21,500	\$33,168
Insurance companies	\$24,406	\$38,073
Retailers	\$25,999	\$41,663
Service companies	\$23,482	\$34,907
Average	\$23,676	\$35,960

TABLE 7—ADDITIONAL COMPENSATION INFORMATION**7A. Has board compensation been raised within the last 12 months?**

	% 1985	% 1986
Yes	34.1%	39.1%
No	64.0%	59.0%
No response	1.9%	1.9%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	1985 Increase	1986 Increase
Industrials		
Under \$200 million	\$1,961	\$2,623
\$200 million-\$399 million	\$2,350	\$4,107
\$400 million-\$599 million	\$1,900	\$2,000
\$600 million-\$999 million	\$1,768	\$2,996
\$1 billion-\$2.999 billion	\$2,640	\$2,310
\$3 billion-\$4.999 billion	\$2,656	\$3,503
\$5 billion and over	\$3,434	\$3,240
Banks and other financial institutions ...	\$2,732	\$3,235
Insurance companies	\$3,171	\$2,626
Retailers	\$4,492	\$2,614
Service companies	\$2,709	\$2,767
Average	\$2,777	\$2,923

7B. Do you contemplate raising board compensation in the next year?

	% 1985	% 1986
Yes	25.5%	24.5%
No	66.9%	65.4%
No response	7.6%	10.1%
TOTAL	100.0%	100.0%

7C. How much did the highest paid director receive in 1986 for all board services exclusive of any consulting arrangement?

Type and Size of Company	1982 Average Compensation	1986 Average Compensation	1986 Upper Quartile Average
Industrials			
Under \$200 million	\$11,120	\$18,075	\$27,639
\$200 million-\$399 million	\$16,940	\$20,111	\$31,534
\$400 million-\$599 million	\$15,750	\$19,288	\$26,900
\$600 million-\$999 million	\$17,460	\$25,526	\$38,211
\$1 billion-\$2.999 billion	\$24,090	\$29,297	\$41,511
\$3 billion-\$4.999 billion	\$30,580	\$37,184	\$50,677
\$5 billion and over	\$36,200	\$48,366	\$81,151
Banks and other financial institutions ...	\$20,700	\$28,962	\$48,706
Insurance companies	\$21,420	\$30,756	\$54,626
Retailers	\$18,980	\$27,051	\$46,080
Service companies	—	\$27,890	\$43,353
Average	\$21,720	\$28,572	\$46,665

FIVE-YEAR
TREND

7D. Who is primarily responsible for establishing board compensation?

	%
Chairman	58.8%
Compensation committee	37.7%
Nominating committee	11.3%
Executive committee	10.7%

7E. What benefits are included in the compensation plan for outside directors?

	% 1982	% 1985	% 1986
Travel expense reimbursement	86.4%	95.8%	91.5%
Directors' liability insurance	85.6%	93.4%	84.1%
Deferral of board fees until retirement	55.3%	67.5%	66.8%
Matching educational gifts program	40.1%	50.3%	47.2%
Accident insurance	43.4%	48.6%	41.2%
Pension/Retirement income plan	14.0%	25.8%	25.4%
Life insurance	18.8%	23.4%	23.3%
Travel expenses for spouse	23.7%	27.2%	22.7%
Medical insurance	10.5%	10.6%	12.6%
Stock options	—	3.1%	8.2%

7F. Have your directors' liability insurance premiums been increased?

	% 1985	% 1986
Yes	68.2%	82.1%
No	26.1%	10.7%
No response	5.7%	7.2%
TOTAL	100.0%	100.0%

7G. Has your total dollar coverage been decreased?

	% 1985	% 1986
Yes	27.3%	50.3%
No	67.3%	39.8%
No response	5.4%	9.9%
TOTAL	100.0%	100.0%

If yes, by how much?

If yes, by how much?		Dollar Coverage Decrease in Thousands	
Type and Size of Company	Premiums % Increase	From	To
Industrials			
Under \$200 million	796%	\$30,727	\$14,364
\$200 million–\$399 million	305%	\$20,500	\$ 8,929
\$400 million–\$599 million	577%	\$38,750	\$18,125
\$600 million–\$999 million	558%	\$33,235	\$18,000
\$1 billion–\$2.999 billion	446%	\$42,586	\$21,179
\$3 billion–\$4.999 billion	670%	\$65,917	\$45,091
\$5 billion and over	489%	\$99,250	\$63,250
Banks and other financial institutions . . .	462%	\$38,290	\$22,484
Insurance companies	670%	\$33,188	\$16,813
Retailers	744%	\$34,500	\$24,333
Service companies	706%	\$41,077	\$23,731
Average	570%	\$42,143	\$23,968

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	16.1%
5-6	31.7%
7-9	18.8%
10-12	28.4%
13 and over	1.7%
No response	3.3%
TOTAL	100.0%
Average	8 meetings

8B. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	% 1985	% 1986
Under 40	4.7%	4.7%
40-70	20.6%	19.8%
71-100	23.5%	24.3%
101-130	17.5%	20.1%
131-160	9.9%	10.1%
161-190	5.5%	5.4%
191 and over	7.4%	7.6%
No response	10.9%	8.0%
TOTAL	100.0%	100.0%
Average	114 hours	114 hours

Hours (continued)

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under \$200 million	94	149
\$200 million-\$399 million	99	184
\$400 million-\$599 million	106	200
\$600 million-\$999 million	120	215
\$1 billion-\$2.999 billion	109	174
\$3 billion-\$4.999 billion	137	249
\$5 billion and over	153	254
Banks and other financial institutions	107	183
Insurance companies	134	296
Retailers	86	134
Service companies	108	197
Average	114	204

TABLE 9—LOCATING OUTSIDE DIRECTORS**9A. How many new directors were added during the past year?**

Number Added	% Inside Directors	% Outside Directors
None	75.9%	51.5%
One	17.3%	31.6%
Two	5.2%	11.5%
Three or more	1.6%	5.4%
TOTAL	100.0%	100.0%

9B. How are outside directors located for the board?

	% 1982	% 1985	% 1986
Recommendation of chairman	78.1%	81.3%	80.6%
Recommendation of board members	75.5%	77.3%	80.8%
Nominating committee	51.9%	63.7%	57.9%
Recommended by other corporate officers	37.5%	37.4%	37.7%
Executive search	9.2%	10.9%	12.0%
Referral from executive acquaintances	11.5%	11.4%	11.1%
Bank referral	1.2%	2.1%	1.6%
Referral from attorneys	2.0%	1.6%	2.3%

└ FIVE-YEAR TREND ┐

9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1982	% 1985	% 1986
Yes	18.1%	20.4%	22.2%
No	78.7%	77.7%	75.7%
No response	3.2%	1.9%	2.1%
TOTAL	100.0%	100.0%	100.0%

If yes, what are the predominant reasons?

	% 1982	% 1985	% 1986
Time commitment	70.0%	60.2%	64.9%
On too many boards	30.9%	28.8%	28.9%
Conflict of interest	21.8%	21.2%	21.9%
Increasing legal liability	—	2.5%	14.2%

TABLE 10—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	50.9%	75.1%	85.8%
Strategic planning	20.6%	46.6%	66.2%
Financing/Capitalization	1.2%	11.1%	28.3%
Management succession	9.1%	17.5%	26.6%
Industry competition	3.7%	9.7%	19.8%
Mergers/Acquisitions	1.4%	8.2%	18.3%
Day-to-day operations	6.6%	11.7%	17.5%
Corporate takeovers	2.1%	5.8%	9.3%
Shareholder relations	0.4%	2.7%	5.8%
Executive compensation	0.0%	1.2%	3.9%
Governmental relations	0.0%	1.0%	2.3%
Communications/Public relations	0.0%	0.0%	1.7%
Environmental issues	0.4%	1.4%	1.7%
Multinational issues	0.0%	0.4%	1.0%
Ethics/White-collar crime	0.4%	0.6%	0.6%

TABLE 11—PARTICIPATING COMPANIES**11A. Size of Participating Companies**

	Number of Companies	%
Industrials		
Under \$200 million	23	4.3%
\$200 million–\$399 million	43	8.1%
\$400 million–\$599 million	30	5.6%
\$600 million–\$999 million	41	7.7%
\$1 billion–\$2.999 billion	68	12.8%
\$3 billion–\$4.999 billion	29	5.5%
\$5 billion and over	55	10.3%
Banks and other financial institutions	83	15.6%
Insurance companies	51	9.6%
Retailers	24	4.5%
Service companies	85	16.0%
TOTAL	532	100.0%

11B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	66.3%
American Stock Exchange	4.9%
Over-the-counter	18.9%
Other (private, mutual)	9.9%
TOTAL	100.0%

11C. Type of Participating Companies

	%
Industrial	54.3%
Banks and other financial institutions	15.6%
Insurance	9.6%
Retail	4.5%
Service	16.0%
TOTAL	100.0%

*This year 1,000 companies were asked to participate. There were 532 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.

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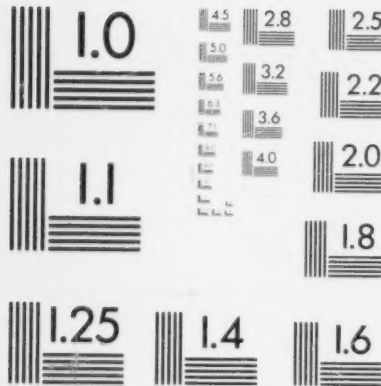
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**Board of Directors
Fourteenth Annual Study
Billion Dollar Corporations
1987**

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**KORN/FERRY INTERNATIONAL
FOURTEENTH ANNUAL BOARD OF DIRECTORS STUDY OF
BILLION DOLLAR CORPORATIONS**



Introduction

As part of our annual Board of Directors Study, we make a special analysis of the statistical data pertaining to industrial and service companies with revenues in excess of \$1 billion.

Our most recent survey was answered by 532 companies, of which 194, or 36 percent, were industrial and service companies in the \$1 billion-and-over category. Of these, 68 companies, or 35 percent, reported revenues of \$5 billion and over. In the fourteen years since we began our study, we have discovered that these larger companies have consistently been the trend-setters in matters of corporate governance. Their innovations and the directions they have taken in board practices have had a tremendous influence on the board policies generally adopted by most other corporations. It has always been, therefore, with special attention that we have regarded the survey data on these leading corporations.

Continuing Problems in Recruiting Directors

In 1986, we found that among these giants the shortage of qualified directors continues and, indeed, is more pronounced than ever. Fully 78 percent of the chairmen we surveyed believe that there is still a problem finding and attracting qualified directors. And the same percentage (78 percent) state that the problem has *not* diminished since last year. Among the largest corporations (\$5 billion and over), 85 percent of the chairmen saw no improvement in their ability to recruit and retain directors.

Meanwhile, one out of four companies reported that a prospective director had refused the offer of a board seat. Citing time demands and the issue of legal liability, candidates for board seats are saying no more often.

The CEOs of these leading companies are among the first to politely refuse additional board seats. Fifty-two percent of them have turned down an offer in the past year (compared with 42 percent in the overall population surveyed). Although they are the most in demand, these chairmen believe that CEOs should limit the number of directorships they accept to one or two. Only 47 percent of the billion dollar company CEOs said they would consider accepting another directorship, and only 37 percent of the CEOs from \$5 billion-and-over companies would consider doing so. In the overall survey, 55 percent of the respondents would accept an additional board seat.

Coming to Grips with the Liability Crisis

The crisis of directors' liability insurance is still with us and some of the leading companies (seven percent) were turned down for coverage in 1986. Eighty-seven percent of the billion dollar companies saw insurance premium increases during the year (compared with 66 percent in 1985). The average increase was a startling 560 percent, up from 336 percent a year ago. For 49 percent of the companies surveyed, total dollar coverage fell by an average of 40 percent.

Most companies also say that the worst may be over. Seventy-eight percent believe the Delaware statute limiting director liability will at least partially rectify the situation. Forty-two percent of the billion dollar companies surveyed are asking their shareholders to approve a measure limiting director liability (compared with 34 percent overall), and 75 percent of these are in favor of eliminating liability altogether (compared with 69 percent overall).

Other Trends

The billion dollar corporations still lead in the recruitment of women and minority directors. This year, women continue to constitute a growing source of directorial talent, with 51 percent of these companies seating a woman director, up from 48 percent five years ago. In comparison, the number of companies overall that seat a woman director dipped this year from 45 percent to 43 percent. Fifty-nine percent of the \$5 billion-and-over companies have women directors. Forty percent of the billion dollar companies report minority representation on their boards, up sharply from 31 percent in 1985.

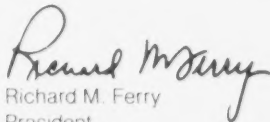
Another development that we see in the larger corporations is the increasing use of committees to transact board business. Sixty percent of the billion dollar respondents feel there is definitely a trend toward more committee-assigned tasks in order to increase efficiency and improve productivity. Only 38 percent of the overall respondents felt this way.

Although cash compensation for directors is not an issue with the industry leaders, benefits continue to grow as an important part of the director's compensation package. Compensation plans at 79 percent of the billion dollar companies permit outside directors to defer fees until after retirement, up from 67 percent five years ago. Also important are pension/retirement income plans, matching educational gift programs and accident insurance.

The details of our findings follow. We think these insights into the trend-setting billion dollar companies will prove to be valuable indicators of the direction of boards in the future.



Lester B. Korn
Chairman



Richard M. Ferry
President

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings are for billion dollar industrial and service corporations (Table 1). When appropriate, comparisons are made between this group and all participants in our study.*

1. Size of Board (Table 2)

Billion dollar corporate boards continue to seat an average of 14 directors, one more than the 13 reported for all respondents. The average for the largest companies, \$5 billion and over, is 15 members. With an average of 18 directors, banks and other financial institutions continue to maintain the largest boards, but since last year reduced the number from 20.

2. Inside Directors vs. Outside Directors (Table 2)

Outside directors constitute a majority of board members among billion dollar corporations, as they do for all respondents as a group.

This year, billion dollar corporations have an average of four inside directors and 10 outside directors, one member more than the 13 reported for all boards.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

This year, 85 percent of the billion dollar corporations report that their chairman also serves as chief executive officer, up from 83 percent last year and higher than the average of 77 percent among all corporations surveyed. Only 34 percent of the billion dollar respondents report having a chief executive officer who also acts as chief operating officer, the same as last year. This percentage is below the 38 percent for all respondents.

4. Board Composition (Table 4)

Outside directors originate most often from the following categories: CEO/COO of other companies (85 percent), retired executives of other companies (79 percent) and academicians (61 percent). (Senior executives of other companies declined to 44 percent from 86 percent in 1985 as a result of the addition of the new category "CEO/COO of other companies.") Representation of retired or previously employed corporate officers, attorneys and commercial bankers continued to decline from the averages reported five years ago.

Billion dollar companies report that 41 percent seat former government officials on their boards, about the same as last year. Their representation rises to 51 percent for \$5 billion-and-over companies, compared with 28 percent for all respondents and 18 percent for smaller industrials with revenues under \$200 million.

Twenty-seven percent of billion dollar boards now seat at least one "professional" director, compared with 22 percent reported in 1982.

* This year, 532 corporations responded to our Annual Study. Industrial and service corporations account for 70 percent of the total, of which 194 companies have revenues in excess of \$1 billion. Banks and other financial institutions account for 16 percent, insurance companies for 10 percent and retailers for five percent.

Women and ethnic minorities continue to constitute growing sources of outside directors for billion dollar corporations. This year, 51 percent report women on their boards, up from 48 percent five years ago. By comparison, in all companies surveyed, the number of boards with women dipped by two percent to 43 percent this year. Fifty-nine percent of the \$5 billion-and-over companies have women directors. Minority membership increased from 31 percent reported in 1985 to 40 percent of the billion dollar boards this year. Five years ago, 32 percent of the billion dollar corporations reported seating an ethnic minority (Table 4A). Women directors are primarily academicians, former government officials and senior executives of other companies. Interestingly, this year more women directors were former government officials than senior executives of other companies. In 1985, the opposite was reported. Ethnic minorities are drawn primarily from the ranks of academia and chief executive and chief operating officers of other companies (Table 4B).

As part of the trend toward an increased number of independent outside directors, the billion dollar corporations seek executives with broad management experience, a primary consideration for 89 percent of the respondents. The billion dollar corporations report a higher percentage of chief executive and chief operating officers from other companies than any of the other groups in the study.

5. Committees (Table 5)

Among the billion dollar corporations, audit (99 percent), compensation/personnel (94 percent) and executive (87 percent) continue to be the most prevalent committees. And the percentage of companies using compensation/personnel and executive committees is well above the averages reported last year, up from 84 percent and 80 percent, respectively. On the other hand, billion dollar corporations report that 43 percent have a finance committee and 27 percent have a benefits committee, a decrease from the number of companies reporting both in 1982 and 1985.

Sixty-eight percent of the billion dollar companies use a nominating committee, a slight dip from the 70 percent reported in our Tenth Annual Study (Table 5A). However, the percentage rises to 77 percent for the \$5 billion-and-over corporations. Among corporations with nominating committees, 28 percent use the committee in the management succession process, slightly higher than the 23 percent reported for all respondents. Of the \$5 billion-and-over companies, 33 percent state the committee participates in management succession. Only the compensation/personnel committee plays a more dominant role in the management selection process among the billion dollar companies (51 percent).

Committees have an average of four to seven directors. The finance committee is the largest. The audit committee increased its members by one; the number of outside directors on the public affairs and science/technology committees decreased by one, compared with the 1985 average. As in 1985, the audit, compensation/personnel and benefits committees are composed entirely of outside directors (Table 5B).

The average number of committee meetings per year ranges from two to six. Meetings of the finance committee increased from four in 1982 and five in 1985 to six meetings in 1986. The corporate ethics committees increased their average number of meetings from two to three meetings this year (Table 5C). Sixty percent of the billion dollar respondents believe that in order to improve productivity, there is a trend toward more committee-assigned tasks, compared with 38 percent of all respondents.

6. Compensation (Table 6)

Eighty-nine percent of the billion dollar respondents compensate outside directors on an annual plus per-meeting fee basis. Correspondingly, nine percent of billion dollar corporations continue to pay an annual fee only. One percent compensate directors with per-meeting fees only.

Annual Plus Per-Meeting Fee (89 percent of the respondents)

This year, the average annual plus per-meeting fee paid to outside directors of the billion dollar companies rose to \$24,264, 10 percent higher than in 1982. Furthermore, this figure is 19 percent higher than the \$20,462 averaged by all respondents. The \$24,264 compensation comprises an average annual fee of \$17,265, a 27 percent increase over the 1982 average annual fee, and an average per-meeting fee of \$901, up from \$707 in 1982 and \$764 in 1985. Director fees of the \$5 billion-and-over industrial and service companies grew at a slightly higher pace, with an average compensation of \$27,616 reported this year, compared with the \$25,926 reported in our Thirteenth Annual Study.

The upper quartile compensation for the billion dollar companies, included here for comparative purposes, averages \$31,025, eight percent more than the \$28,715 upper quartile average for all respondents.

Annual Fee Only (Nine percent of the respondents)

In billion dollar corporations that pay an annual fee only, outside directors earned an average annual fee of \$25,847. This amount is 31 percent more than the \$19,744 average among all respondents using a similar method of compensation. For \$5 billion-and-over industrial and service companies, average annual fees rose to \$28,800, up 16 percent over the average paid in 1985.

7. Committee Compensation (Table 7)

Eighty-seven percent of the billion dollar respondents and 90 percent of the \$5 billion-and-over corporations compensate their directors with an additional fee for serving on committees. While most committee members of billion dollar companies are paid on a per-meeting fee basis, most committee chairmen are compensated with an annual fee for committee service (Table 7A).

Total Annual Compensation

Including committee fees, the average total compensation paid to outside directors of billion dollar companies was reported at \$28,686, compared with \$23,676 for all respondents. Directors of the \$5 billion-and-over industrial and service corporations earned an average of \$33,646.

The upper quartile average for the billion dollar industrial and service firms was \$39,867, rising to \$46,379 for the \$5 billion-and-over industrial and service companies (Table 7B).

8. Additional Compensation Information (Table 8)

Average total compensation for the single highest paid director at a billion dollar corporation was \$34,561 in 1986 for all board service activities exclusive of any consulting arrangements. This represents a four percent increase over last year's average and a 21 percent increase over the average of five years ago.

Compensation for the upper quartile ranged from \$42,697 to \$68,940, with an average of \$53,720 (Table 8A).

During the past year, 38 percent of the billion dollar companies raised compensation to outside directors, up from 32 percent that did so last year. Respondents reported an average increase of \$2,719. This amount is less than the increase for all board respondents (\$2,923) and less than last year's increase (\$2,956) for the largest corporations. Twenty-eight percent of the billion dollar companies contemplate raising director fees next year by an average of \$3,093, compared with the projected increase of \$2,608 last year and the projected increase of \$2,757 for all respondents. Seventy-six percent of the billion dollar companies expressed a conviction that, in general, their outside directors are adequately compensated.

Thirty-one percent of the billion dollar respondents have outside directors who receive special consulting fees, compared with the overall average of 26 percent.

Fifty-nine percent of the billion dollar respondents state that the primary responsibility for board compensation rests with the chairman, up from 48 percent in 1985. In 39 percent of the cases the compensation/personnel committee is responsible (up from 32 percent), and in 12 percent of the cases the nominating or selection committee plays a role in establishing appropriate compensation.

Benefits continue to gain importance for outside directors. Compensation plans at 79 percent of the billion dollar companies (and 82 percent of the \$5 billion-and-over corporations) permit outside directors to defer fees until retirement, up from 67 percent five years ago. Thirty-five percent provide a pension/retirement income plan, well above the 19 percent with such plans three years ago. Other benefits commonly provided include matching educational gift programs (68 percent) and accident insurance (56 percent). Travel expense reimbursement is nearly universal (98 percent). The practice of providing directors' liability insurance decreased to 92 percent from 97 percent in 1985 (Table 8B).

Stock Ownership

Eighty-four percent of the billion dollar respondents stated that all directors should own some company stock, up from 79 percent last year. The average minimum number of shares indicated was 517.

Ninety-six percent of the respondents of all billion dollar corporations report that their outside directors do, in fact, own some stock in the companies they serve.

Liability Insurance

Although most of the billion dollar participants currently have directors' liability insurance, seven percent have been denied coverage within the past year. Eighty-seven percent of the billion dollar corporations responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1986, up considerably from the 66 percent that experienced increases last year. Furthermore, the average increase soared to 560 percent, compared with 336 percent in 1985. Forty-nine percent of billion dollar corporations experienced a decrease in total dollar coverage, up from 25 percent last year. Coverage on average fell 40 percent from \$60 million to \$36 million.

Twenty-nine percent of billion dollar respondents and 35 percent of \$5 billion-and-over industrial and service companies now are considering self-insurance, up from 16 percent and 18 percent, respectively, in 1985. When asked if respondents had been approached to join a consortium, 65 percent of the billion dollar companies reported in the affirmative, compared with 52 percent of all participants. Forty-seven percent would consider joining if asked.

9. Board Practices and Policies (Table 9)

Billion dollar corporate boards meet an average of eight times per year, the same as the average number of meetings for all respondents. For the \$5 billion-and-over industrial and service firms, an average of nine meetings is held per year.

A director of a billion dollar company spends an average 125 hours per year on board-related business, including review and preparation, meeting attendance and travel, similar to last year's 126 hours and compared with 114 hours for all participants. The average for the \$5 billion-and-over corporations is 141 hours. The upper quartile average is 221 hours for the billion dollar companies, compared with the upper quartile average of 204 hours for all respondents.

The chairmen of billion dollar corporations reported devoting an average of 181 hours to board duties. The time rose to 203 hours among the chairmen of the \$5 billion-and-over companies, about the same as last year.

Based on reported compensation data, directors of the larger companies receive \$194 per hour if compensated on an annual plus per-meeting fee basis, up considerably from the \$142 reported in our Tenth Annual Study.

With committee fees taken into account, the average hourly rate for outside directors of billion dollar companies is \$229, and for the largest industrial and service firms (\$5 billion and over) is \$239 per hour.

Eighty-nine percent of the billion dollar respondents (and 98 percent of the \$5 billion-and-over respondents) have a mandatory retirement age policy for their directors. The average retirement age for outside directors remains 70. The average retirement age for inside directors is 67, and 69 for billion dollar board chairmen. The average age of the billion dollar company CEO is 57, while the boards' outside directors average 60. The youngest outside director is 49 on average and, the oldest, 70.

10. Locating Outside Directors (Table 10)

Twenty-three percent of the billion dollar corporations had at least one outside director resign from their boards this year, a decrease from 30 percent last year. Retirement was the major reason (33 percent), but less of a factor than last year when it was cited by 56 percent of the billion dollar companies. In the \$5 billion-and-over corporations, retirement was cited by 36 percent, down from 65 percent in 1985. Conflict of interest (23 percent) and time demands (21 percent) were also factors—an increase from 16 percent and 13 percent, respectively, last year.

Forty-six percent of the billion dollar companies added new outside directors. Fifty-five percent of the \$5 billion-and-over industrial and service firms added new outside directors, up from the 46 percent reported in 1985.

Thirty-three percent expect a board vacancy in the coming year, the same as reported in 1985. This percentage rose to 41 percent for the \$5 billion-and-over companies. In identifying and selecting new outside directors, billion dollar boards continue to rely on the traditional means of recommendation by the chairman and by other board members (each 85 percent).

The nominating committee is used to select and identify new directors by 68 percent of billion dollar corporate boards and by 75 percent of the \$5 billion-and-over firms, compared with the overall average of 58 percent. The use of executive search firms continues to rise. Seventeen percent of the billion dollar companies now use executive search firms to help in selecting directors, up from 13 percent in 1982 and compared with 12 percent for all respondents (Table 10).

Participants in this year's study overwhelmingly named broad management experience (cited by 89 percent) as the primary consideration in asking a director to sit on their boards. Fifty-seven percent reported that personal stature was an important factor. Other major considerations included specific industry experience and strong financial skills, each cited by 32 percent.

Twenty-five percent noted that a prospective director declined an invitation to serve on the board. Time commitment was the predominant reason for declining, cited by 74 percent of the billion dollar corporations and 85 percent of the \$5 billion-and-over industrial and service companies, up from 62 percent and 72 percent, respectively, in 1985. Serving on too many boards was a reason for declining, cited by 41 percent, up from 30 percent in 1985. And the issue of legal liability jumped to 12 percent, whereas in 1985, the issue was of no significance.

11. Issues (Table 11)

When asked to rank the importance of issues facing corporate boards today, 82 percent of the billion dollar respondents ranked financial results either first, second or third, up from 77 percent last year. Next in rank was strategic planning, which was cited by 70 percent as one of the top three issues, an increase from 63 percent last year.

A major concern of the billion dollar corporations is the issue of management succession. Thirty percent cite succession as one of their top three priorities, up from 27 percent in 1985. Also of importance is the issue of mergers/acquisitions, cited by 17 percent of the billion dollar firms. However, among the \$5 billion-and-over industrial and service companies, there is a marked drop in concern about mergers/acquisitions to only eight percent, down from 15 percent last year.

Two other issues identified by the billion dollar companies included financing/capitalization (27 percent) and industry competition (19 percent), up from 23 percent and 14 percent, respectively, in 1985.

When asked to project the importance of the same issues five years from now, financial results placed first (71 percent), followed by strategic planning (64 percent). Other major issues considered of long-term importance by the billion dollar corporations were managerial succession (31 percent) and industry competition (25 percent).

Seventy-one percent of the billion dollar respondents spend the most board time on issues related to financial results. Forty-nine percent are most occupied with strategic planning, followed by the issues of mergers/acquisitions and day-to-day operations (each 14 percent).

TABLE 1—PARTICIPATING COMPANIES

Of those industrial and service companies with sales volumes \$1 billion or over, 194 participated in our Fourteenth Annual Study.

Size (Assets)	Number of Companies	%
\$1 billion–\$2,999 billion	88	45.4%
\$3 billion–\$4,999 billion	39	19.6%
\$5 billion and over	68	35.0%
TOTAL	194	100.0%

Stock Exchange	Number of Companies	%
New York Stock Exchange	178	90.9%
American Stock Exchange	7	4.0%
Over-the-counter	2	1.1%
Other	7	4.0%
TOTAL	194	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
\$1 billion–\$2,999 billion	3	9	12
\$3 billion–\$4,999 billion	4	9	13
\$5 billion and over	4	11	15
Average	4	10	14

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	84.7%	33.5%
No	13.5%	64.1%
No response	1.8%	2.4%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1982 Companies Over \$1 Billion	1986 Companies Over \$1 Billion	1986 All Companies Surveyed
CEO/COO of other companies	—	84.7%	74.2%
Retired executive (other companies)	72.6%	79.4%	67.4%
Academician	63.9%	61.2%	49.7%
Senior executive (other companies)	92.7%	43.5%	46.0%
Woman	47.9%	50.6%	42.9%
Retired or previously employed			
corporate officer	53.4%	42.9%	40.2%
Attorney (does not provide legal			
services for the company)	33.3%	30.0%	35.3%
Major shareholder (not officer			
of the company)	25.6%	25.9%	30.9%
Ethnic minority member	31.5%	40.0%	29.5%
Former government official	43.8%	41.2%	27.6%
Commercial banker	37.4%	32.4%	25.0%
"Professional" director	21.9%	26.5%	25.0%
Investment banker	26.9%	28.2%	24.3%
Attorney (provides legal			
services for the company)	21.9%	19.4%	23.7%
Non-U.S. citizen	23.3%	18.8%	13.0%
International executive (American)	8.7%	8.8%	6.2%

FIVE-YEAR
TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	24.4%	27.9%
Former government officials	23.3%	13.2%
Senior executives (other companies)	18.6%	5.9%
CEOs/COOs (other companies)	12.8%	20.6%
Attorneys (do not provide		
legal services)	8.1%	13.2%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1982 Companies Over \$1 Billion	% 1986 Companies Over \$1 Billion	% 1986 All Companies Surveyed
Audit	97.7%	99.4%	97.5%
Compensation/Personnel	90.0%	94.1%	90.5%
Executive	80.8%	87.1%	80.4%
Nominating	70.3%	68.2%	57.9%
Finance	45.2%	42.9%	34.6%
Benefits	32.9%	26.5%	25.0%
Public affairs	16.0%	12.9%	9.9%
Corporate ethics	10.5%	10.0%	7.2%
Science/Technology	—	4.1%	3.7%

FIVE-YEAR
TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	5
Compensation/Personnel	0	4	4
Executive	2	3	5
Nominating	1	4	5
Finance	2	5	7
Benefits	0	4	4
Public affairs	1	4	5
Corporate ethics	1	3	4
Science/Technology	1	3	4

5C. How many committee meetings were held during the past 12 months?

Committee	1982 Average Number of Meetings	1985 Average Number of Meetings	1986 Average Number of Meetings
Audit	3	3	3
Compensation/Personnel	4	4	4
Executive	3	4	4
Nominating	2	2	2
Finance	4	5	6
Benefits	4	3	3
Public affairs	3	3	3
Corporate ethics	3	2	3

FIVE-YEAR TREND

TABLE 6—COMPENSATION**How are board members compensated?****Annual Plus Per-Meeting Fee (89 percent of respondents)**

Annual Fee Amount	%
Under \$7,000	3.4%
\$7,000–\$10,999	6.1%
\$11,000–\$13,999	10.9%
\$14,000 and over	79.6%
TOTAL	100.0%
Average Annual Fee	\$17,265

PLUS

Amount Per Meeting	%
Under \$500	1.4%
\$500–\$599	10.9%
\$600–\$799	41.5%
\$800 and over	46.2%
TOTAL	100.0%
Average Per-Meeting Fee	\$901

EQUALS

Total Annual Compensation	%
Under \$14,000	6.8%
\$14,000–\$16,999	5.4%
\$17,000–\$19,999	12.9%
\$20,000–\$24,999	32.0%
\$25,000 and over	42.9%
TOTAL	100.0%
Average Total Annual Compensation	\$24,264

Size of Company	1982 Average Compensation	1986 Average Compensation	1986 Upper Quartile Average
\$1 billion–\$2.999 billion	\$18,300	\$20,971	\$26,995
\$3 billion–\$4.999 billion	\$26,760	\$25,966	\$32,106
\$5 billion and over	\$24,960	\$27,616	\$33,400
Average	\$22,040	\$24,264	\$31,025

FIVE-YEAR
TREND

TABLE 7—COMMITTEE COMPENSATION**7A. What is the average committee fee for outside directors?**

Committee	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	\$715	\$4,403
Compensation/Personnel	\$700	\$3,970
Executive	\$723	\$4,995
Nominating	\$694	\$3,511
Finance	\$721	\$8,095
Benefits	\$688	\$2,683

7B. What is the average total annual compensation, including committee fees, for outside directors?

Size of Company	Average Compensation	Upper Quartile Average
\$1 billion–\$2,999 billion	\$24,912	\$33,551
\$3 billion–\$4,999 billion	\$30,622	\$38,561
\$5 billion and over	\$33,646	\$46,379
Average	\$28,686	\$39,867

TABLE 8—ADDITIONAL COMPENSATION INFORMATION**8A. How much did the highest paid director receive in 1986 for all board services exclusive of any consulting arrangement?**

Amount	%
Under \$11,000	1.3%
\$11,000–\$16,999	3.9%
\$17,000–\$24,999	14.2%
\$25,000–\$29,999	19.4%
\$30,000–\$39,999	40.6%
\$40,000 and over	20.6%
TOTAL	100.0%
Average	\$34,561

Highest paid director

	1982 Average Compensation	1986 Average Compensation	1986 Upper Quartile Average
\$1 billion–\$2,999 billion	\$24,090	\$29,055	\$42,697
\$3 billion–\$4,999 billion	\$30,580	\$36,125	\$51,355
\$5 billion and over	\$36,200	\$42,562	\$68,940
Average	\$28,680	\$34,561	\$53,720

FIVE-YEAR
TREND

8B. What benefits are included in the compensation plan for outside directors?

	% 1982	% 1985	% 1986
Travel expense reimbursement	91.8%	97.2%	97.6%
Directors' liability insurance	91.8%	96.7%	91.8%
Deferral of board fees until retirement	66.7%	75.3%	79.4%
Matching educational gifts program	60.3%	69.3%	67.6%
Accident insurance	54.8%	61.9%	55.9%
Pension/Retirement income plan	—	66.9%*	35.3%
Travel expenses for spouse	28.3%	31.2%	30.6%
Life insurance	24.2%	27.4%	28.2%
Medical insurance	11.9%	10.7%	14.7%
Stock options	—	—	6.5%

*Figure represents pension plan (30.2%) and retirement income plan (36.7%)

FIVE-YEAR TREND

TABLE 9—BOARD PRACTICES AND POLICIES

How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	2.9%
40-70	17.1%
71-100	15.9%
101-130	24.1%
131-160	13.5%
161-190	7.6%
191 and over	10.7%
No response	8.2%
TOTAL	100.0%
Average	125 hours

Size of Company	Number of Hours	Upper Quartile Average
\$1 billion-\$2 999 billion	113	192
\$3 billion-\$4 999 billion	133	248
\$5 billion and over	141	241
Average	125	221

TABLE 10—LOCATING OUTSIDE DIRECTORS**How are outside directors located for the board?**

	% 1982	% 1986
Recommended by chairman	81.7%	85.3%
Recommended by board members	77.6%	84.7%
Nominating committee	67.1%	67.6%
Recommended by other corporate officers	33.8%	40.0%
Executive search	13.2%	17.1%
Referred by executive acquaintances	12.3%	13.5%



TABLE 11—ISSUES**What is the relative importance of each of the following issues?**

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	45.3%	67.6%	82.4%
Strategic planning	25.3%	49.4%	70.0%
Management succession	8.8%	18.8%	30.0%
Financing/Capitalization	1.2%	11.8%	27.1%
Industry competition	3.5%	9.4%	18.8%
Mergers/Acquisitions	1.2%	7.6%	17.1%
Day-to-day operations	4.7%	8.8%	12.4%
Corporate takeovers	2.4%	5.9%	7.6%
Government relations	0.0%	1.8%	3.5%
Shareholder relations	0.0%	2.4%	3.5%
Communications/Public relations	0.0%	0.0%	2.9%
Multinational issues	0.0%	0.6%	1.8%
Ethics/White collar crime	0.6%	1.2%	1.2%

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**Board of Directors
Fourteenth Annual Study
Banks & Other Financial Institutions
1987**

KORN/FERRY INTERNATIONAL

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**KORN/FERRY INTERNATIONAL
FOURTEENTH ANNUAL BOARD OF DIRECTORS STUDY OF
BANKS AND OTHER FINANCIAL INSTITUTIONS**



Introduction

For the past 14 years, Korn/Ferry International has surveyed 1,000 of America's leading corporations in an ongoing effort to collect information on the structure and function of the corporate board. As part of our annual study, we make a special analysis of the data pertaining to banks and other financial institutions.

This year, 532 companies responded to our survey, of which 83, or 16 percent, were financial institutions. As in the past two years, we found that discussions of board matters were once again dominated by two interrelated factors—concern over difficulties in recruiting and maintaining qualified directors and issues of liability.

The majority of financial respondents (67 percent) continue to believe that there is a problem finding and attracting qualified outside directors, and 79 percent state that the problem has not diminished since last year.

But despite this lingering problem, CEOs of financial institutions are more willing to take on additional directorships than their counterparts in other industries. Seventy percent of the chairmen of banks and financial institutions said that they would accept an additional board seat compared with only 55 percent of all the chairmen surveyed. And while, overall, 42 percent of our respondents reported having turned down a board seat in the past year, only 28 percent of financial respondents had done so, less than any other group. Furthermore, while respondents as a whole stated that a CEO should serve on no more than one or two boards, financial respondents believe that three or four board seats are appropriate.

Liability Crisis

The crisis of directors' liability insurance is still with us, and although 90 percent of banks and financial institutions have D&O insurance, seven percent were denied coverage within the last year.

Eighty-five percent of those with coverage saw their insurance premiums increase compared with 78 percent in 1985. And this year's increases were more dramatic—on average 462 percent (compared with 271 percent in 1985). Furthermore, 63 percent of the financial institutions experienced an average 42 percent decrease in total dollar coverage.

But most financial respondents feel that measures are in place to ease the crisis. Seventy-one percent said that the Delaware statute limiting director liability will at least partially rectify the situation. Perhaps the confidence of the banks is reflected in the fact that only 18 percent of them are concerned enough to ask shareholders to **approve** a measure limiting or eliminating director liability. Overall, 34 percent of our respondents were proposing such a measure to their shareholders.

Other Trends

While banks and financial institutions' boards decreased in size from an average 20 to 18 members, they are still the largest boards. Overall, company boards averaged only 13 directors.

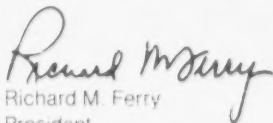
Banks and financial institutions have taken the lead in the recruitment of women and minority directors. Forty-nine percent say they are actively seeking women and minority board members, as opposed to 28 percent overall. Currently, women sit on 61 percent of financial boards and members of ethnic minorities sit on 53 percent.

Despite pay boosts of six percent this year, financial directors still lag behind the average respondent in total compensation. They averaged \$18,471, compared with an overall average compensation of \$20,462.

These are some of the important trends that we found among banks and other financial institutions. A more detailed discussion follows in the Summary of Findings.



Lester B. Korn
Chairman



Richard M. Ferry
President

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to bank and other financial institution respondents (Table 1). Where appropriate, comparisons are made with all the participants in our study.*

1. Size of Board (Table 2)

Banks and other financial institutions have an average of 18 directors on their boards, compared with the average of 13 members for all respondents and higher than any other group responding to this study. The average of 18 represents a decrease from the 20 members reported by banks and financial institutions last year.

2. Inside Directors vs. Outside Directors (Table 2)

Banks and other financial institutions also have the strongest preference for outside director dominance. Their boards average four inside and 14 outside directors, compared with three inside and 10 outside members for all companies.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Banks and other financial institutions report that 83 percent of their chairmen also function as chief executive officers, compared with the overall average of 77 percent. They have among the lowest percentage of CEOs who are also the chief operating officers. Only 22 percent report that their CEO is also their COO, down from 30 percent in 1985 and compared with 38 percent for all respondents.

4. Board Composition (Table 4)

With their strong preference for outside representation, banks and other financial institutions rely most often on CEOs/COOs of other companies (79 percent) and retired executives of other companies (65 percent) for their outside directorships. (Senior executives of other companies declined to 58 percent from 84 percent in 1985 as a result of the addition of the new category "CEO/COO of other companies.") (Table 4A)

Women sit on 61 percent of all financial company boards, the same as last year and compared with 43 percent for all companies. Only insurance companies reported seating more women directors. Women board members are drawn primarily from the ranks of academia (Table 4B).

Banks and other financial institutions are also among the leaders in ethnic minority representation. Minorities sit on 53 percent of their boards, compared with the overall average of 30 percent and higher than their representation rate of 43 percent five years ago (Table 4A). Only retailers registered a higher percentage of minorities on their boards. As in 1985, financial companies draw

*This year, 532 corporations responded to our Annual Study. Industrial and service corporations account for 70 percent of the total, of which 194 companies have revenues in excess of \$1 billion. Banks and other financial institutions account for 16 percent, insurance companies for 10 percent and retailers for five percent.

most of their minority members from the ranks of academia (35 percent) (Table 4B).

Other groups significantly represented on financial boards include retired or previously employed corporate officers (42 percent), attorneys who do not provide legal services for the company (47 percent, up from 33 percent last year) and former government officials (30 percent). Financial boards, however, continue to have a low percentage of investment bankers. Only five percent seat an investment banker, down from 10 percent in 1985 and compared with 24 percent for all respondents.

Thirty-six percent of banks and other financial institutions seat attorneys who provide legal services for the company, and 29 percent have major shareholders on the board, up from 18 percent in 1982 and 25 percent in 1985 (Table 4A).

Representation of academicians declined to 55 percent from 62 percent last year, as did commercial bankers, from 17 percent in 1982 and 1985 to 12 percent this year.

5. Committees (Table 5)

Ninety-nine percent of the financial respondents report having an audit committee. As in the past, the two other most prevalent committees are compensation/personnel and executive, cited by 91 percent and 87 percent, respectively, up from 85 and 78 percent, respectively, in 1985. Fifty-nine percent have a nominating committee, compared with the 58 percent reported by all respondents. Only 17 percent, however, report having a finance committee, the smallest percentage of all responding groups (Table 5A).

As in 1985, the executive and finance committees are the largest, with an average of seven members. The benefits committee is smallest, with only four members. The public affairs committee increased by one outside director, while the audit and benefits committees decreased by one outside director, back to the levels reported in 1984. While the finance committee increased by one inside director, respondents reported an average decrease by one outside director. The audit, compensation/personnel and benefits committees each are composed entirely of outside directors (Table 5B).

The finance committee meets most frequently, averaging 11 meetings, a substantial jump from the five meetings reported in 1985. Meetings of the executive committee continued to increase from a low of five reported in 1984 to nine meetings reported this year (Table 5C).

Forty-seven percent of the bank and other financial institution respondents believe that in order to improve productivity, there is a trend toward more committee-assigned tasks, compared with 38 percent of all respondents. Along with the executive committee, the compensation/personnel committee plays the predominant role in the management succession process (53 percent).

6. Compensation (Table 6)

The annual plus per-meeting fee method of compensation is still by far the most popular system of remunerating outside directors. Ninety-one percent of bank

and other financial institution respondents reported using this method, up from 84 percent five years ago. Five percent pay an annual fee only and four percent pay a per-meeting fee only.

Annual Plus Per-Meeting Fee (91 percent of the respondents)

The average total annual compensation for outside directors of banks and other financial institutions using this method of payment is \$18,471, an increase of six percent over last year's average of \$17,462 and 21 percent more than directors of financial companies earned five years ago (\$15,310). Banks and other financial institutions still lag behind all other study respondents, by 10 percent, in total compensation.

The \$18,471 total average compensation comprises an average annual fee of \$11,313 and an average per-meeting fee of \$669. Up two percent from last year, the upper quartile average for financial companies is \$27,519, up from \$26,938 last year but four percent lower than the \$28,715 average for all respondents.

Annual Fee Only (Five percent of the respondents)

The average earnings of outside directors receiving an annual fee only climbed sharply to \$19,350, 15 percent over the \$16,840 reported by banks and other financial institutions last year, and 33 percent higher than the \$14,600 reported five years ago. However, the average annual fee of \$19,350 was slightly below the \$19,744 average for all respondents.

Per-Meeting Fee Only (Four percent of the respondents)

The fee paid to outside directors of financial companies using this method of compensation averages \$775, a 46 percent increase from five years ago, but a dip from last year's average per-meeting fee only of \$800.

7. Committee Compensation (Table 7)

Eighty-seven percent of banks and other financial institutions compensate their directors additionally for serving on committees. While committee members generally receive a per-meeting fee, most chairmen are compensated with an annual fee (Table 7A).

Total Annual Compensation

Including committee fees, the average total compensation paid to outside directors of banks and other financial institutions was reported at \$21,500, compared with \$23,676 for all respondents.

The upper quartile average for directors of banks and other financial institutions was \$33,168, compared with the overall average of \$35,960 (Table 7B).

8. Additional Compensation Information (Table 8)

The highest paid outside director of a bank or financial institution receives an average \$28,962 for all board services exclusive of any consulting arrangement, an increase of 40 percent over the \$20,700 reported five years ago. The \$28,962 average is also slightly higher than the overall average of \$28,572.

The average upper quartile compensation for financial respondents is \$48,706, compared with \$46,665 for all respondents. The average upper quartile fee for banks and other financial institutions increased 26 percent over the 1985 average. Sixteen percent also pay at least one outside director additional consulting fees, up from 11 percent last year.

Thirty-eight percent of the financial respondents increased directors' compensation an average of \$3,235 for their board members in 1986. This is 11 percent above the average increase for all respondents and 18 percent higher than the average increase of \$2,732 for financial companies last year. Twenty-five percent predict an increase in board fees for the coming year, projecting an average increase of \$2,329. Seventy-nine percent of the financial company respondents believe that their outside directors are adequately compensated, consistent with the response in 1985.

Fifty-seven percent of the banks and other financial institutions state that their board chairmen are primarily responsible for establishing board compensation. In 36 percent of the cases, the compensation/personnel committee is responsible, down from 44 percent in 1985. In 17 percent of the cases, the executive committee plays a role in establishing appropriate compensation.

Banks and other financial institutions continue to take the lead in allowing outside directors to defer board fees until after retirement. Eighty-three percent offered this option, considerably above the 67 percent for all respondents. In 1985, 76 percent of the financial institutions allowed their outside directors to defer fees and 63 percent did so five years ago. Twelve percent have a program that provides retirement benefits, slightly less than last year and less than any other respondent group.

Other benefits commonly offered include travel expense reimbursement (88 percent), directors' liability insurance (82 percent), accident insurance (34 percent) and matching educational gifts (34 percent).

Stock Ownership

Eighty-seven percent of the financial respondents stated that all directors should own some company stock, up from 81 percent last year. The average minimum number of shares indicated was 506.

Eighty-six percent of the financial respondents report that their outside directors do, in fact, own some stock in the companies they serve. Sixty-seven percent report having 11 or more outside directors who own stock, a greater number than any responding group.

Liability Insurance

Ninety percent of banks and other financial institutions have directors' liability insurance, although seven percent have been denied coverage within the past year. Eighty-five percent of the financial corporations responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1986, up from 78 percent last year. Furthermore, the average premium increase jumped to 462 percent, compared with the average of 271 percent reported in 1985. Sixty-three percent experienced a decrease in total dollar

coverage, compared with the average 50 percent for all respondents. Coverage on average fell 42 percent, from \$38 million to \$22 million.

Thirty-seven percent of financial institutions are considering self-insurance, more than any other responding group. When asked if respondents had been approached to join a consortium, 83 percent of banks and other financial institutions reported in the affirmative, compared with the overall average of 52 percent. Fifty-nine percent would consider joining if asked, again, more than any other respondent group.

9. Board Practices and Policies (Table 9)

The boards of banks and other financial institutions averaged 10 regular meetings during the past year, two more than the average of eight for all respondents and up from nine meetings reported last year.

An outside director of a financial institution devoted an average of 107 hours to board-related business last year—less than the average of 114 for all respondents but greater than last year's average (99 hours) for financial companies. The upper quartile average for financial companies is 183 hours per year (Table 9A).

The chairmen of financial institutions spent considerable time on board-related activities, devoting 169 hours, the same as last year.

Based on reported compensation data, directors of financial companies received an hourly rate of \$173, up 25 percent from the 1982 hourly rate of \$138.

With committee fees taken into account, the average hourly rate for outside directors of banks and other financial institutions is \$201, compared with \$208 for all outside directors.

As in 1985, banks and other financial companies had more board resignations than any other reporting group. Forty-one percent reported the resignation of an outside director during the past year, well above the 29 percent figure for all companies. However, this figure was slightly less than last year's resignation rate for financial company respondents. Thirty-six percent cited time demands as the major reason for board resignations.

Fifty-nine percent added at least one new outside director. For the fourth consecutive year, banks more than any other group have added outside directors. (Four respondents reported that five or more outside directors were added to their boards in 1986.) Forty-five percent expect a board vacancy, again, more than any other respondents. Most banks and financial institutions continue to rely predominantly on recommendations by their chairmen and by other board members (each 80 percent) to identify and select new directors. Nevertheless, 66 percent reported some use of the nominating committee in selecting new directors, compared with the overall average of 58 percent (Table 9B). When asking a prospective director to sit on a board, 91 percent of the financial companies view broad management experience as the primary consideration, followed by personal stature (72 percent).

Twenty-four percent of financial institutions report that at least one prospective director declined an invitation to serve on their boards, the same as reported last year. Time commitment was the primary reason cited for declining such an invitation (Table 9C).

Ninety-two percent have a mandatory retirement age, compared with 77 percent for all respondents. The average retirement age is 68 for inside directors, 70 for outside directors and 69 for board chairmen.

The average age of the CEO is 58, and 59 for the respondents' outside directors. The average age of the youngest outside director is 48, the oldest, 69.

10. Issues (Table 10)

Financial results and strategic planning continue to be the two most important issues facing the boards of banks and other financial institutions. When asked to rank various board issues, 71 percent ranked financial results as the most significant issue. Ninety-six percent ranked it among the top three. Sixty-three percent ranked strategic planning either first, second or third. Other issues of significance were financing/capitalization (32 percent) and mergers/acquisitions (26 percent), followed by day-to-day operations (25 percent).

When asked to project rankings for the same issues five years from now, financial results again placed first, cited by 79 percent, up from 68 percent last year. Strategic planning was rated second in importance to financial results, cited by 58 percent. Financing/capitalization was cited by 25 percent of the financial population, followed by mergers/acquisitions, cited by 24 percent.

Eighty-two percent of the respondents spend the most board time on issues related to financial results. Thirty-eight percent are most occupied with strategic planning, followed by the issues of mergers/acquisitions and day-to-day operations (each 22 percent).

TABLE 1—PARTICIPATING COMPANIES

Eighty-three of America's major banks and financial institutions participated in our Fourteenth Annual Study.

Size (Assets)	Number of Financial Institutions	%
Under \$10 billion	48	57.8%
\$10 billion and over	35	42.2%
TOTAL	83	100.0%

Stock Exchange	Number of Financial Institutions	%
New York Stock Exchange	37	44.6%
American Stock Exchange	0	0.0%
Over-the-counter	35	42.2%
Other	11	13.2%
TOTAL	83	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Financial Institution	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under \$10 billion	3	13	17
\$10 billion and over	4	16	20
Average	4	14	18

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	82.9%	22.4%
No	14.5%	75.0%
No response	2.6%	2.6%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION
4A. Are one or more of the following individuals on the board?

	1982 Financial Institutions	1986 Financial Institutions	1986 All Companies Surveyed
CEO/COO of other companies	—	78.9%	74.2%
Retired executive (other companies)	61.8%	64.5%	67.4%
Academician	57.9%	55.3%	49.7%
Senior executive (other companies)	96.1%	57.9%	46.0%
Woman	65.8%	60.5%	42.9%
Retired or previously employed corporate officer	47.4%	42.1%	40.2%
Attorney (does not provide legal services for the company)	38.2%	47.4%	35.3%
Major shareholder (not officer of the company)	18.4%	28.9%	30.9%
Ethnic minority member	43.3%	52.6%	29.5%
Former government official	32.9%	30.3%	27.6%
Commercial banker	17.1%	11.8%	25.0%
"Professional" director	15.8%	18.4%	25.0%
Investment banker	2.6%	5.3%	24.3%
Attorney (provides legal services for the company)	35.5%	35.5%	23.7%
Non-U.S. citizen	19.7%	14.5%	13.0%
International executive (American)	11.8%	7.9%	6.2%

FIVE YEAR
TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	37.0%	35.0%
Senior executives (other companies)	10.9%	17.5%
CEOs/COOs (other companies)	10.9%	25.0%
Former government officials	6.5%	0.0%
Attorneys (do not provide legal services)	4.3%	10.0%

TABLE 5—COMMITTEES
5A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	98.7%	97.5%
Compensation/Personnel	90.8%	90.5%
Executive	86.8%	80.4%
Nominating	59.2%	57.9%
Benefits	25.0%	25.0%
Finance	17.1%	34.6%
Public affairs	17.1%	9.9%
Corporate ethics	9.2%	7.2%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Compensation/Personnel	0	5	5
Executive	2	5	7
Nominating	1	4	5
Benefits	0	4	4
Finance	2	5	7
Public affairs	1	5	6
Corporate ethics	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1982 Average Number of Meetings	1985 Average Number of Meetings	1986 Average Number of Meetings
Audit	4	4	5
Compensation/Personnel	4	4	4
Executive	7	7	9
Nominating	2	2	2
Benefits	3	3	3
Finance	4	5	11
Public affairs	3	3	3
Corporate ethics	4	2	3

— FIVE YEAR TREND —

TABLE 6—COMPENSATION**How are board members compensated?****Annual Plus Per-Meeting Fee (91 percent of respondents)**

Annual Fee Amount	%
Under \$5,000	7.6%
\$5,000–\$6,999	15.2%
\$7,000–\$10,999	24.2%
\$11,000–\$13,999	24.2%
\$14,000 and over	28.8%
TOTAL	100.0%
Average Annual Fee	\$11,313

PLUS

Amount Per Meeting	%
Under \$250	—
\$250–\$499	16.9%
\$500–\$599	41.5%
\$600–\$799	26.2%
\$800 and over	15.4%
TOTAL	100.0%
Average Per-Meeting Fee	\$669

EQUALS

Total Annual Compensation	%
Under \$7,000	1.5%
\$7,000–\$10,999	12.3%
\$11,000–\$13,999	10.8%
\$14,000–\$16,999	24.6%
\$17,000–\$19,999	9.2%
\$20,000–\$24,999	24.7%
\$25,000 and over	16.9%
TOTAL	100.0%
Average Total Annual Compensation	\$18,471

COMPENSATION (continued)**Annual Plus Per-Meeting Fee**

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	\$18,471	\$27,519
Insurance companies	\$18,863	\$26,530
Retailers	\$22,249	\$30,875
Service companies	\$20,653	\$28,542
Industrials		
Under \$200 million	\$14,207	\$22,768
\$200 million-\$399 million	\$15,560	\$22,386
\$400 million-\$599 million	\$17,011	\$22,060
\$600 million-\$999 million	\$20,593	\$27,188
\$1 billion-\$2,999 billion	\$21,279	\$27,223
\$3 billion-\$4,999 billion	\$26,447	\$32,270
\$5 billion and over	\$28,820	\$34,671
Average	\$20,462	\$28,715

TABLE 7—COMMITTEE COMPENSATION**7A. What is the average committee fee for outside directors?**

Committee	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	\$511	\$4,757
Compensation/Personnel	\$512	\$3,533
Executive	\$532	\$5,857
Nominating	\$545	\$2,453
Finance	\$569	\$6,000
Benefits	\$427	\$2,700

7B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	\$21,500	\$33,168
Insurance companies	\$24,406	\$38,073
Retailers	\$25,999	\$41,663
Service companies	\$23,482	\$34,907
Industrials		
Under \$200 million	\$15,290	\$24,483
\$200 million-\$399 million	\$17,110	\$25,113
\$400 million-\$599 million	\$19,700	\$28,875
\$600 million-\$999 million	\$22,414	\$31,875
\$1 billion-\$2,999 billion	\$25,146	\$31,895
\$3 billion-\$4,999 billion	\$31,399	\$39,121
\$5 billion and over	\$36,548	\$48,428
Average	\$23,676	\$35,960

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1986 for all board services exclusive of any consulting arrangement?

Amount	%
Under \$11,000	1.5%
\$11,000–\$16,999	14.7%
\$17,000–\$24,999	29.4%
\$25,000–\$29,999	14.7%
\$30,000–\$39,999	23.5%
\$40,000 and over	16.2%
TOTAL	100.0%
Average	\$28,962

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	\$28,962	\$48,706
Insurance companies	\$30,756	\$54,626
Retailers	\$27,051	\$46,080
Service companies	\$27,890	\$43,353
Industrials		
Under \$200 million	\$18,075	\$27,639
\$200 million–\$399 million	\$20,111	\$31,534
\$400 million–\$599 million	\$19,288	\$26,900
\$600 million–\$999 million	\$25,526	\$38,211
\$1 billion–\$2,999 billion	\$29,297	\$41,511
\$3 billion–\$4,999 billion	\$37,184	\$50,677
\$5 billion and over	\$48,366	\$81,151
Average	\$28,572	\$46,665

TABLE 9—BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	5.3%
40–70	17.1%
71–100	28.9%
101–130	18.4%
131–160	11.8%
161–190	2.6%
191 and over	6.7%
No response	9.2%
TOTAL	100.0%
Average	107 hours

Hours (continued)

Type and Size of Company	Number of Hours	Upper Quartile Average
Banks and other financial institutions	107	183
Insurance companies	134	296
Retailers	86	134
Service companies	108	197
Industrials		
Under \$200 million	94	149
\$200 million-\$399 million	99	184
\$400 million-\$599 million	106	200
\$600 million-\$999 million	120	215
\$1 billion-\$2,999 million	109	174
\$3 billion-\$4,999 million	137	249
\$5 billion and over	153	254
Average	114	204

9B. How are outside directors located for the board?

	% 1985	% 1986
Recommended by chairman	88.0%	80.3%
Recommended by board members	77.1%	80.3%
Nominating committee	65.1%	65.8%
Recommended by other		
corporate officers	43.4%	48.7%
Referred by executive acquaintances	8.4%	5.3%
Executive search	4.8%	2.6%

9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	23.7%
No	75.0%
No Response	1.3%
TOTAL	100.0%

If yes, what are the predominant reasons?

	%
Time commitment	55.6%
Conflict of interest	27.8%
On too many boards	22.2%

TABLE 10—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	71.1%	86.8%	96.1%
Strategic planning	6.6%	42.1%	63.2%
Financing/Capitalization	2.6%	11.8%	31.6%
Mergers/Acquisitions	3.9%	14.5%	26.3%
Day-to-day operations	6.6%	13.2%	25.0%
Management succession	5.3%	9.2%	14.5%
Industry competition	2.6%	9.2%	13.2%
Corporate takeovers	1.3%	7.9%	10.5%
Government relations	0.0%	1.3%	5.3%
Shareholder relations	0.0%	0.0%	3.9%
Communications/Public relations	0.0%	0.0%	2.6%
Environmental issues	0.0%	2.6%	2.6%

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KORN/FERRY INTERNATIONAL
1987 ANNUAL BOARD OF DIRECTORS STUDY
OF RETAIL COMPANIES



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Introduction

For the past 14 years, Korn/Ferry International has surveyed 1,000 of America's leading corporations to identify significant trends at the board level and to gain insight into the structure and function of the corporate board today. As part of our annual survey, we make a special study of the data pertaining to the boards of retail company participants.

This year, of the 532 corporations that responded to our survey, five percent were retail companies. Industrial and service corporations accounted for 70 percent of the total, banks and other financial institutions, 16 percent and 10 percent were insurance companies.

As in the past two years, we found that discussions of important board matters centered on two interrelated factors--concern over difficulties in recruiting and retaining qualified directors and issues of director liability.

The majority of our retail respondents (68 percent) said there is still a problem finding and attracting qualified outside directors. And 82 percent (more than in any other industry group) said the problem has not diminished since last year.

Current CEOs of retailing companies are much less likely than the average CEO to accept an additional board seat. Only 27 percent said they would do so, compared with 55 percent of all the CEOs responding to the survey. Thirty-six percent of retail CEOs report having turned down the offer of a board seat within the past year, compared with 42 percent of all CEOs.

Many, however, feel that increased compensation and benefits are the keys to attracting potential directors. Forty-one percent said increasing compensation would help in board recruiting and 46 percent said more benefits were important.

Liability Crisis

Retail boards appear to be more subject to liability suits than other companies. Twenty-three percent said their board or their directors had been sued within the past three years, more than any other group participating in the study. Overall, 17 percent of the companies surveyed were sued in the past three years.

Nearly three-quarters (72 percent) believe that the Delaware statute limiting director liability will at least partially rectify the situation. Of the retail companies surveyed, 32 percent are asking shareholders to approve such a measure. Of these, 71 percent want to eliminate director liability entirely.

Only 14 percent are considering measures that only limit liability.

In the wake of these liability pressures, and perhaps because of them, 59 percent of retail companies said their directors are probing for more information on strategic plans. Of these, 100 percent of the companies said their board members were seeking information particularly in the critical area of shareholder value.

These are some of the important issues that have emerged from this year's study of retail boards. A more detailed discussion follows in the Summary of Findings.

Summary of Findings

On a question-by-question basis, the following findings relate directly to retail industry respondents (Table 1). Whenever appropriate, comparisons are made with and all the participants in our study.

1. Size of Board (Table 2)

Retail boards consist of an average of 13 members, the same as last year and equal to the number reported for all respondents. As in 1985, the largest retailers (companies with revenues of \$2 billion or more) average 14 directors.

2. Inside Directors vs. Outside Directors (Table 2)

The retail boards average four inside and nine outside directors, one more inside director and one less outside director than the boards of all respondents. Five years ago, retailers reported an average of five inside and eight outside directors.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

The number of retail respondents with chairmen who also serve as chief executive officer continues to rise. Ninety-one percent of the retail respondents report this relationship, up from 86 percent last year, and 75 percent in 1984, and more than any other responding group. Thirty-six percent note that their chief executive officer

is also their chief operating officer, an increase from 28 percent in 1985.

4. Board Composition (Table 4)

With their strong preference for outside representation, retailers rely on academicians (73 percent) and CEOs/COOs of other companies (64 percent) as the primary sources for outside directors. (Senior executives of other companies declined to 55 percent from 79 percent in 1985 as a result of the addition of the new category "CEO/COO of Other Companies"). Retired executives of other companies are another important source for outside directors, although their representation declined to 59 percent, from 67 percent in 1982 and 69 percent last year.

Fifty-nine percent of the retailers have women on their boards -- well above the 43 percent for all respondents, but a decrease from last year's representation of 62 percent for retail boards (Table 4A). Outside women directors are drawn primarily from academia and the ranks of senior executives of other companies (Table 4B). Representation of ethnic minorities jumped to 55 percent of retail boards, compared with 31 percent last year, and 30 percent reported by all respondents. Minorities are drawn primarily from academia and senior executives and CEOs/COOs of other companies.

Other groups that are highly represented on retail boards include retired or previously employed corporate officers (41 percent), major shareholders who are not officers of the company (36 percent), and attorneys (32 percent).

In 1986, the following major shifts in the composition of retail boards should be noted:

- Former government officials decreased from 28 percent in 1985 to 14 percent in 1986.
- Non-U.S. citizens fell from 13 percent in 1982 and 10 percent in 1985 to zero this year.
- International executives who also were not represented on retailing boards in 1986, fell from 10 percent in 1982 and seven percent in 1985.

On the other hand, groups experiencing increases in representation since 1982 include:

- Academicians (from 47 percent in 1982 and 52 percent in 1985 to 73 percent in 1986).
- "Professional" directors (from 13 percent in 1982 and 38 percent in 1985 to 46 percent this year).

5. Committees (Table 5)

The audit, compensation/personnel and executive committees continue to be the most widely reported standing committees among retailers as they are among all respondents. All retailing companies reported use of an audit committee,

while 96 percent reported a compensation/personnel committee (up from 86 percent in 1985), and 82 percent reported an executive committee (up from 79 percent in 1985) (Table 5A). Sixty-eight percent of the retailers have a nominating committee, up from 66 percent last year, and compared with 58 percent for all respondents. Although use of the finance and benefits committees declined from 1985 levels, their occurrence is higher than the percentages reported by all respondents. As in 1985, the compensation/personnel, executive and nominating committees play a predominant role in the management succession process in retail organizations.

The executive, finance and public affairs committees are the largest, averaging six directors, each increasing from the number of members reported last year. Overall, committee size increased this year, compared with 1985 when committees decreased in size. The corporate ethics committee, which reported having no members in 1985, gained one inside and four outside directors. The audit, compensation/personnel and benefits committees are composed entirely of outside directors (Table 5B).

Committees averaged between two and four meetings this year. The compensation/personnel and finance committees increased their average number of meetings by one (Table 5C). Forty-six percent of the retail respondents feel that

in order to improve productivity, there is a trend toward more committee-assigned tasks.

6. Compensation (Table 6)

Eighty-five percent of the participating retailers compensate their outside directors on an annual plus per-meeting fee basis. Ten percent pay an annual fee only and only one company pays a per-meeting fee only.

-Annual Plus Per-Meeting Fee (85 percent of the respondents)

The retail respondents increased total average annual compensation by a modest \$108 from \$22,141 last year to \$22,249 this year. However, this is nine percent more than the total compensation for all respondents (\$20,462). The total is comprised of an average annual fee of \$16,488 and an average per-meeting fee of \$738. The percentage of retailing directors who earn \$25,000 or more continued to increase from the 12 percent reported in 1983 to 44 percent this year. Five years ago, the average compensation for all retailers was reported at \$16,950.

The upper quartile average for retailers, included for comparative purposes, is \$30,875, compared with the average \$28,715 for all respondents and the upper quartile average of \$27,520 reported by retailers in 1985.

-Annual Fee Only

For retailing directors compensated with an annual fee only, the average fee is \$15,000, the same as last year and 24 percent less than the \$19,744 reported by all respondents.

7. Committee Compensation (Table 7)

Eighty-six percent of the retail respondents pay their outside directors additionally for serving on committees compared with 83 percent for all respondents. While committee members generally receive a per-meeting fee, most committee chairmen are compensated with an annual fee (Table 7A).

-Total Annual Compensation

Including committee fees, the average total annual compensation for outside directors of retailing companies was reported at \$25,999, compared with the overall average of \$23,676. The upper quartile average for retailers is \$41,663 compared with the upper quartile average of \$35,960 for all respondents (Table 7B).

8. Additional Compensation Information (Table 8)

Eight retailers or 36 percent of the respondents raised outside director fees in 1986, down from 43 percent last year. For those who posted increases, the average amount was reported at \$2,614, significantly lower than the \$4,492 increase reported by retailers last year, but slightly

higher than the average increase of \$2,520 reported by retailers in 1984. In 1986, the average increase for all respondents was \$2,923. Three retailers or 14 percent project an increase in board fees in the coming year, averaging \$1,500.

Average total compensation for the single highest paid outside retail director was an average \$27,051 in 1986 for all board services exclusive of any consulting arrangements. This represents a 43 percent increase over the 1982 average of \$18,980. The upper quartile average in this category is \$46,080 for retail directors, slightly less than the average \$46,665 for all directors, but 22 percent higher than the upper quartile average reported by retailers in 1985 (Table 8A). Four of the retail respondents have outside directors who also receive consulting fees. Eighty-six percent believe that their outside directors are adequately compensated, down from 96 percent last year, but compared with the overall average of 75 percent. As in 1985, retailers reported the most satisfaction with director compensation.

Sixty-four percent of the participants of retail companies state that their board chairman has the primary responsibility for establishing board compensation. The compensation committee is responsible at 46 percent of the companies. And in 14 percent of the cases, the executive

committee is responsible.

Fifty-nine percent allow their outside directors to defer board fees until retirement, up from 43 percent in 1985. Twenty-three percent provide pension/retirement income plans (up from 13 percent five years ago). Travel expense reimbursement and directors' liability insurance are commonly included and reported by 86 percent and 82 percent, respectively. Other benefits include matching educational gifts programs (32 percent), accident insurance (46 percent) and life insurance, now offered by 27 percent of the respondents, up from 11 percent in 1985 (Table 8B).

-Stock Ownership

Eighty-six percent of the respondents believe that all directors should own some company stock, the same as reported last year. Of the 86 percent who believe that all directors should own some shares of company stock, the average minimum number of shares indicated was 282.

Retail company respondents reported that all of their outside directors do, in fact, own some company stock.

-Liability Insurance

Ninety-one percent of the retailers currently have directors' liability insurance. Interestingly, 19 percent have been denied coverage within the year, more than any

responding group. Eighty-five percent of the retail companies responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1986, up from 64 percent last year. The average premium increase jumped to 744 percent, compared with the average of 337 percent reported in 1985. The percent of increase for retailers was greater than all other respondents.

Thirty-five percent of retail boards experienced a decrease in total dollar coverage up from 11 percent last year, but compared with 50 percent for all companies. The decrease in total dollar coverage was smallest for retailers, who averaged a 29 percent decline (from \$35 million to \$24 million), compared with a 43 percent decrease (from \$42 million to \$24 million) for all companies. This may be due, in fact, to the 56 percent decline reported last year by retailers, the highest of all respondents.

Nineteen percent of retailing companies are considering self-insurance, compared with the overall average of 30 percent. When asked if respondents had been approached to join a consortium, 46 percent of the retailers reported in the affirmative, and 44 percent would consider joining if asked.

9. Board Practices and Policies (Table 9)

The boards of retailing companies average seven regular board meetings per year -- one less than the average for all respondents, but the same number as reported for retailers last year.

An outside director of a retail company devoted an average 86 hours on board-related business, including time for review, preparation, attendance and travel (Table 9A). The time has decreased from 93 hours reported five years ago and 105 hours reported in 1985. In 1986, the average for all directors was 114 hours.

Board chairmen of retailing companies spend considerable time on board-related activities, devoting 140 hours, an increase from the 107 hours reported by the chairmen last year. The upper quartile average hours for retail directors was 134, down from 198 hours last year and compared with 204 hours reported by all respondents.

Based on reported compensation data, retailing directors earned an hourly rate of \$259, up 23 percent from the 1985 hourly rate. Since 1984, retailers have received the highest hourly rate of all respondents.

With committee fees taken into account, the average hourly rate for outside directors of retailing companies is \$302, compared with \$208 for all outside directors.

Twenty-three percent of the retail respondents had an outside director resign from the board, down considerably from the 43 percent reported last year. Retirement was the major reason for resigning, cited by 40 percent. Fifty-five percent added new outside directors to their boards, compared with 47 percent both last year and five years ago.

In selecting and identifying new directors, retailers continue to predominantly use the traditional means of recommendations of the chairmen and other board members, but the use of the nominating committee continues to be strong. This year, 68 percent cited its use in the selection process, up from 47 percent in 1982 (Table 9B).

According to 91 percent of the retailers, broad management experience is the primary consideration in asking prospective directors to sit on the board, followed by personal stature (64 percent) and strong financial skills (46 percent). Thirty-two percent of the retailers had at least one prospective director decline an invitation to serve on their board. This is up considerably from the 17 percent that was reported last year (and compared with 22

percent for all respondents), but slightly less than the 33 percent reported three years ago by retailers. Time commitment was the primary reason cited for declining such an invitation (Table 9C).

Sixty-four percent of the retailers have a mandatory retirement age, compared with 77 percent for all respondents. The average retirement age is 67 for inside directors, 70 for outside directors, and 69 for board chairmen.

The average age of the CEO at a retailing company is 54, and 58 for the respondents' outside directors. The average age of the youngest outside director is 49; the oldest, 69.

10. Board Issues (Table 10)

As with all respondents, financial results is the most important issue facing retail boards today. When asked to rank the relative importance of various issues, 91 percent ranked it first, second or third, up from 66 percent in 1985 and unlike last year when retailers rated strategic planning above the other issues. Eighty-two percent placed strategic planning first, second or third, up from 69 percent in 1985. Other significant issues include financing/capitalization (41 percent), corporate takeovers (23 percent), and management succession (18 percent).

Seventy-seven percent of the respondents spend the most board time on issues related to financial results. Fifty-five percent are most occupied with strategic planning, followed by the issue of financing/capitalization (23 percent).

When asked to project rankings for the same issues five years from now, strategic planning and financial results were cited as equal in importance (77 percent). Financing/capitalization and management succession followed with 41 percent and 32 percent, respectively.

TABLE 1 - PARTICIPATING COMPANIES

Twenty-four of America's major retailers participated in our Fourteenth Annual Study.

Size (Sales)	No. of Retailers	%
Under \$2 billion	11	45.8%
\$2 billion and over	13	54.2%
TOTAL	24	100.0%

Stock Exchange	No. of Retailers	%
New York Stock Exchange	18	75.0%
American Stock Exchange	3	12.5%
Over-The-Counter	3	12.5%
TOTAL	24	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

Size of Company	Average Number of Inside Directors	Average Number of Outside Directors	Average Number of Directors
Under \$2 billion	4	7	11
\$2 billion and over	4	10	14
Average	4	9	13

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	90.9%	36.4%
No	9.1%	63.6%
TOTAL	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1982 Retailers	1986 Retailers	1986 All Companies Surveyed
CEO/COO (other companies)	-----	63.6%	74.2%
Retired Executive (other companies)	66.7%	59.1%	67.4%
Academician	46.7%	72.7%	49.7%
Senior Executives (other companies)	83.3%	54.5%	46.0%
Woman	63.3%	59.1%	42.9%
Retired or Previously Employed Corporate Officer	46.7%	40.9%	40.2%
Attorney (does not provide legal services to company)	30.0%	31.8%	35.3%
Major Shareholder (not officer of the company)	36.7%	36.4%	30.9%
Ethnic Minority Representative	33.3%	54.5%	29.5%
Former Government Official	10.0%	13.6%	27.6%
"Professional" Director	13.3%	45.5%	25.0%
Commercial Banker	20.0%	18.2%	25.0%
Investment Banker	20.0%	22.7%	24.3%
Attorney (provides legal services to the company)	30.0%	31.8%	23.7%
Non-U.S. Citizen	13.3%	----	13.0%
International Executive (American)	10.0%	----	6.2%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	46.2%	25.0%
Senior Executives (other companies)	15.4%	16.7%
CEO/COO (other companies)	7.7%	16.7%
Attorneys (do not provide legal services)	7.7%	8.3%
Former Government Officials	7.7%	----

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	1982 Retailers	1986 Retailers	1986 All Companies Surveyed
Audit	96.7%	100.0%	97.5%
Compensation/Personnel	83.3%	95.5%	90.5%
Executive	83.3%	81.8%	80.4%
Nominating	63.3%	68.2%	57.9%
Finance	46.7%	36.4%	34.6%
Benefits	36.7%	31.8%	25.0%
Public Affairs	16.7%	22.7%	9.9%
Corporate Ethics	16.7%	4.5%	7.2%

5B. What is the composition of each committee?

Committee	Average # Inside Directors	Average # Outside Directors	Average # Directors
Audit	0	5	5
Compensation/Personnel	0	4	4
Executive	2	3	6
Nominating	1	4	5
Finance	2	4	6
Benefits	0	4	4
Public Affairs	1	5	6
Corporate Ethics	1	4	5

5C. How many committee meetings were held during the past twelve months?

Committee	1982 Average Number of Meetings	1985 Average Number of Meetings	1986 Average Number of Meetings
Audit	3	3	3
Compensation/Personnel	3	3	4
Executive	4	2	2
Nominating	1	2	2
Finance	2	3	4
Benefits	3	3	3
Public Affairs	2	3	3
Corporate Ethics	1	0	1

TABLE 6 - COMPENSATION

Annual Plus Per-Meeting Fee (85.0 percent of the respondents)

Annual Fee Amount	%
Under - \$ 7,000	15.8%
\$ 7,000 - \$10,999	5.2%
\$11,000 - \$13,999	15.8%
\$14,000 - \$16,999	15.8%
\$17,000 - \$19,999	15.8%
\$20,000 - \$25,000	26.3%
\$25,000 and over	5.3%
TOTAL	100.0%
Average Total Annual Fee	\$16,488

PLUS

Amount Per Meeting	%
Under \$500	5.3%
\$500 - \$599	21.1%
\$600 - \$799	36.8%
\$800 and over	36.8%
TOTAL	100.0%
Average Per-Meeting Fee	\$738

EQUALS

Total Annual Compensation	%
Under \$ 7,000	5.6%
\$ 7,000 - \$10,999	5.6%
\$11,000 - \$13,999	5.6%
\$14,000 - \$16,999	11.1%
\$17,000 - \$19,999	11.1%
\$20,000 - \$24,999	16.6%
\$25,000 and over	44.4%
TOTAL	100.0%
Average Total Annual Compensation	\$22,249

Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	\$22,249	\$30,875
Banks and other Financial Institutions	\$18,471	\$27,519
Insurance companies	\$18,863	\$26,530
Service companies	\$20,653	\$28,542
Industrials		
Under \$200 million	\$14,207	\$22,768
\$200 million - \$399 million	\$15,560	\$22,386
\$400 million - \$599 million	\$17,011	\$22,060
\$600 million - \$999 million	\$20,593	\$27,188
\$1 billion - \$2.999 billion	\$21,279	\$27,223
\$3 billion - \$4.999 billion	\$26,447	\$32,270
\$5 billion and over	\$28,820	\$34,671
Average	\$20,462	\$28,715

TABLE 7 - COMMITTEE COMPENSATION

7A. What is the average committee fee for outside directors?

Committee	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	\$ 692	\$ 3,056
Compensation/Personnel	\$ 703	\$ 3,063
Executive	\$ 642	\$14,000
Nominating	\$ 712	\$ 2,500
Finance	\$ 779	\$ 1,833
Benefit	\$ 663	\$ 2,000

7B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1986 Average	1986 Upper Quartile
Retailers	\$ 25,999	\$ 41,663
Banks and other financial institutions	\$ 21,500	\$ 33,168
Insurance companies	\$ 24,406	\$ 38,073
Service companies	\$ 23,482	\$ 34,907
Industrials		
Under \$200 million	\$ 15,290	\$ 24,483
\$200 million - \$399 million	\$ 17,110	\$ 25,113
\$400 million - \$599 million	\$ 19,700	\$ 28,875
\$600 million - \$999 million	\$ 22,414	\$ 31,875
\$1 billion - \$2.999 billion	\$ 25,146	\$ 31,895
\$3 billion - \$4.999 billion	\$ 31,399	\$ 39,121
\$5 billion and over	\$ 36,548	\$ 48,428
Average	\$ 23,676	\$ 35,960

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1986 for all board service activities exclusive of any consulting arrangements?

Amount	%
Under \$11,000	20.0%
\$11,000 - \$16,999	5.0%
\$17,000 - \$24,999	15.0%
\$25,000 - \$29,999	10.0%
\$30,000 - \$39,000	30.0%
\$40,000 and over	20.0%
TOTAL	100.0%
Average	\$27,051

Highest Paid Director (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	\$ 27,051	\$ 46,080
Banks and other Financial Institutions	\$ 28,962	\$ 48,706
Insurance companies	\$ 30,756	\$ 54,626
Service companies	\$ 27,890	\$ 43,353
Industrials		
Under \$200 million	\$ 18,075	\$ 27,639
\$200 million - \$399 million	\$ 20,111	\$ 31,534
\$400 million - \$599 million	\$ 19,288	\$ 26,900
\$600 million - \$999 million	\$ 25,526	\$ 38,211
\$1 billion - \$2.999 billion	\$ 29,297	\$ 41,511
\$3 billion - \$4.999 billion	\$ 37,184	\$ 50,677
\$5 billion and over	\$ 48,366	\$ 81,151
Average	\$ 28,572	\$ 46,665

8B. What benefits are included in the compensation plan for outside directors?

	% Retailers	% All Companies Surveyed
Travel Expense Reimbursement	86.4%	91.5%
Directors' Liability Insurance	81.8%	84.1%
Deferral of Board Fees Until Retirement	59.1%	66.8%
Matching Educational Gifts Programs	31.8%	47.2%
Accident Insurance	45.5%	41.2%
Pension/Retirement Income Plan	22.7%	25.4%
Life Insurance	27.3%	23.3%
Travel Expenses for Spouse	14.3%	22.7%
Medical Insurance	13.6%	12.6%
Stock Options	9.1%	8.2%

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	9.1%
40 - 70	22.7%
71 - 100	31.8%
101 - 130	22.7%
131 - 160	9.2%
No Response	4.5%
TOTAL	100.0%
Average	86 hours

Hours		
Type and Size of Company	Number of Hours	Upper Quartile Average
Retailers	86	134
Banks and Other Financial Institutions	107	183
Insurance companies	134	296
Service companies	108	197
Industrials		
Under \$200 million	94	149
\$200 million - \$399 million	99	184
\$400 million - \$599 million	106	200
\$600 million - \$999 million	120	215
\$1 billion - \$2.999 billion	109	174
\$3 billion - \$4.999 billion	137	249
\$5 billion and over	153	254
Average	114	204

9B. How are outside directors located for the board?

	% 1985	% 1986
Recommended by chairman	75.9%	81.8%
Recommended by board members	79.3%	81.8%
Nominating committee	69.0%	68.2%
Recommended by other corporate officers	46.4%	31.8%

9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1985	% 1986
Yes	17.0%	31.8%
No	83.0%	68.2%
Total	100.0%	100.0%

If yes, what are the predominant reasons?

	%
Time commitment	42.9%
Increasing legal liability	28.6%
Conflict of interest	28.6%
On too many boards	28.6%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	Percent Ranking No. 1	Percent Ranking No. 1 or 2	Percent Ranking No. 1, 2, or 3
Financial results	50.0%	81.8%	90.9%
Strategic planning	31.8%	77.3%	81.8%
Financing/Capitali- zation	---	13.6%	40.9%
Corporate takeovers	9.1%	9.1%	22.7%
Management succession	4.5%	4.5%	18.2%
Day-to-Day operations	---	4.5%	9.1%
Industrial competition	---	---	9.1%
Mergers/Acquisitions	---	---	9.1%
Executive compensation	---	---	4.5%

PROFILE OF KORN/FERRY INTERNATIONAL

Korn/Ferry International is the largest executive search firm in the world today.

Headquartered in New York and Los Angeles, Korn/Ferry maintains a worldwide network of 37 offices in 17 countries.

Korn/Ferry's practice is broad-based, serving the specific needs of clients through 10 specialty search divisions:

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- High Technology
- Hospitality/Leisure
- Real Estate

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KORN/FERRY INTERNATIONAL
1987 ANNUAL BOARD OF DIRECTORS STUDY
OF INSURANCE COMPANIES



KORN/FERRY INTERNATIONAL

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Introduction

For the past 14 years, Korn/Ferry International has surveyed 1,000 of America's leading corporations to identify significant trends at the board level and to gain insight into the structure and function of the corporate board today. As part of our annual survey, we make a special study of the data pertaining to the boards of insurance company participants.

This year, of the 532 corporations that responded to our survey, 10 percent were insurance companies. Industrial and service corporations accounted for 70 percent of the total, banks and other financial institutions, 16 percent and five percent were retail companies.

As in the past two years, we found that discussions of important board matters centered on two interrelated factors--concern over difficulties in recruiting and retaining qualified directors and issues of director liability.

The majority of our insurance respondents (65 percent) said there is still a problem finding and attracting qualified outside directors. However, 60 percent believe that increased compensation is the key to attracting potential directors.

Many insurance CEOs are not adverse to accepting an additional board seat. Of those surveyed, 52 percent said they would agree to accept the offer of a board seat.

Furthermore, only 31 percent of the insurance CEOs report having turned down a board seat in the past year compared with 42 percent of all the CEOs surveyed.

Liability Crisis

Despite the ongoing liability crisis, insurance respondents feel that measures are in place to at least partially ease the situation. Seventy-seven percent believe that the Delaware statute limiting director liability will at least partially rectify the situation.

Of the insurance companies surveyed, 23 percent are asking shareholders to approve such a measure, less than nearly all other groups. Among all the companies surveyed, 34 percent are considering taking steps to limit or eliminate liability.

Of the insurance companies doing so, 46 percent want to eliminate director liability entirely and 36 percent are considering measures that limit liability.

In the wake of these liability pressures, and perhaps because of them, 77 percent of insurance companies said their directors are probing for more information on the impact of strategic plans. Companies said their board members were seeking information particularly in the critical area of shareholder value.

These are some of the important issues that have emerged from this year's study of insurance boards. A more detailed discussion follows in the Summary of Findings.

Summary of Findings

On a question-by-question basis, the following findings are directly related to the insurance industry respondents (Table 1). Whenever appropriate, comparisons are made with all the participating corporations in our study.

1. Size of Board (Table 2)

Insurance boards consist of an average of 15 members, a decrease from the 16 members reported last year. However, this is two more than the average of 13 for all respondents. Banks and financial institutions continue to have the largest boards, averaging 18.

2. Inside Directors vs. Outside Directors (Table 2)

Insurance boards average three inside and 12 outside directors, one less outside member than reported in 1985. The averages for all respondents are three inside and 10 outside directors.

3. Is the Chairman also the CEO? Is the CEO also the COO?

(Table 3)

The number of insurance company respondents with chairmen who also serve as chief executive officer was reported at 71 percent, down from 75 percent last year, and compared with the average of 77 percent for all companies. Forty-eight percent report that their chief executive officer is also their chief operating officer, higher than any other responding group.

Thirty-eight percent of all respondents reported this dual relationship.

4. Board Composition (Table 4)

Like all corporations, insurance companies select outside directors with strong managerial experience. Chief executive and chief operating officers of other companies (81 percent), academicians (71 percent) and retired executives of other companies (69 percent) comprise the three major sources of outside directors for insurance company boards. (Senior executives of other companies declined to 48 percent from 85 percent in 1985 as a result of the addition of "CEO/COO of other companies.")

For the first time, insurance company boards report the highest number of women directors. Sixty-three percent of insurers' boards seat women directors up from 54 percent five years ago and compared with the overall average of 43 percent (Table 4A). Outside women directors are drawn primarily from the ranks of academia, senior executives of other companies and chief executive and chief operating officers of other companies (Table 4B).

Representation of ethnic minorities increased from last year (25 percent) back to the level reported in 1984 (29 percent). Overall, 30 percent of this year's respondents reported seating an ethnic minority.

Attorneys who do not provide legal services to the company and academicians are the major sources for ethnic minority insurance board members (Table 4B).

As in 1985, a high percentage of insurance companies this year report seating academicians on their boards. In 1986, 71 percent were reported, up from 69 percent last year and well above the overall average of 50 percent. Other groups that are highly represented on insurance boards include attorneys who do not provide legal services to the company (56 percent), retired or previously employed corporate officers and commercial bankers (each 44 percent), and investment bankers (33 percent). Commercial bankers whose representation had doubled in 1985 to 62 percent dropped back to 44 percent, still well above the 25 percent reported by all responding companies. At the same time, representation of former government officials jumped to 42 percent this year up from 29 percent in 1985 and compared with the overall average of 28 percent (Table 4A).

5. Committees (Table 5)

The audit, executive, and compensation/personnel committees continue to be the most widely reported standing committees among the insurance respondents, as they are among all respondents. All insurance company boards report use of an audit committee, while 90 percent report an executive committee (compared with 80 percent of all respondents). Insurers

continue to lead all other responding groups in the use of the executive and finance committees. As in 1985, the percentage reporting a benefits committee continued to decline to six percent in 1986 from 14 percent last year and 16 percent in 1984, and remains the lowest reported of all responding groups. The insurers' use of a corporate ethics committee increased slightly from 10 percent in 1985 to 13 percent this year, and nearly double the seven percent reported by all respondents. Fifty-four percent have a nominating committee -- down from 58 percent in 1985 (Table 5A).

The finance and executive committees are the largest, averaging seven members, unchanged from last year. The size of the benefits committee increased to five up from three members as reported last year, whereas the corporate ethics committee decreased by one member to four. The audit, compensation/ personnel and corporate ethics committees are composed entirely of outside directors (Table 5B). The finance committee meets most frequently, averaging 12 meetings per year, up from nine meetings reported in our Tenth Annual Study (Table 5C). Forty-four percent of the insurance respondents feel that in order to improve productivity, there is a trend toward more committee-assigned tasks, compared with the overall average of 38 percent.

6. Compensation (Table 6)

Ninety percent of the participating insurance companies

compensate their outside directors on an annual plus per-meeting basis. Eight percent pay an annual fee only and only one company pays a per-meeting fee.

-Annual plus Per-Meeting Fee (90 percent of the respondents)

For all outside directors compensated with an annual plus per-meeting fee, the average earnings reported by insurance company directors were \$18,863, up from \$17,490 last year. The average total compensation has increased 35 percent since 1982 (\$13,140) and eight percent compared with last year. However, the \$18,863 is eight percent below the \$20,462 yearly average reported for all respondents. The components of the total compensation include a \$13,488 average annual fee and a \$780 average per-meeting fee (Table 6A). The average annual retainer rose 12 percent, and the per-meeting fee jumped 25 percent from the 1985 per-meeting compensation of \$625.

The upper quartile average, included in this section for comparative purposes, is \$26,530, eight percent lower than the \$28,715 average for all respondents (Table 6B).

7. Committee Compensation (Table 7)

Eighty-three percent of the insurers compensate their outside directors additionally for serving on a committee, the same as for all respondents. While committee members generally receive a per-meeting fee, most committee chairmen are

compensated with an annual fee (Table 7A).

-Total Annual Compensation

Including committee fees, the average total annual compensation for outside directors of insurance companies was reported at \$24,406, compared with the overall average of \$23,676. The upper quartile average for all insurers is \$38,073, compared with the upper quartile average of \$35,960 for all respondents (Table 7B).

8. Additional Compensation Information (Table 8)

Fifty-four percent of the insurance company respondents increased compensation for their board members during the past year. This is significantly higher than the 28 percent that reported raising board fees in 1985, and greater than the overall average of 39 percent. The average fee increased \$2,626, three percent higher than last year's increase of \$2,560, and compared with the average increase of \$2,923 for all respondents. Twenty-seven percent project an increase of \$3,510 during the coming year. As for all participants, 75 percent of the insurance company respondents believe that their outside directors are adequately compensated. Five years ago however, 91 percent of the insurers felt that outside director compensation was adequate.

Average total compensation for the single highest paid insurance company director was \$30,756 in 1986, exclusive of consulting fees, up 23 percent from the \$25,092 reported last

year, and the \$21,420 as reported in our Tenth Annual Study. This represents an eight percent increase over the \$28,572 paid on average to the highest compensated outside directors of all companies. Furthermore, the upper quartile average of \$54,626 for insurance company directors is 17 percent above the \$46,665 upper quartile average for all respondents. Only industrials with revenues over \$5 billion reported a higher average for this category (Table 8). Ten companies, or 21 percent of the insurance respondents have outside directors who also receives consulting fees.

Benefits continue to be significant in compensation plans for outside directors of insurance companies. Seventy-one percent allow their outside directors to defer board fees until retirement, compared with 67 percent for all respondents, and 27 percent offer a pension/retirement income plan. Other benefits commonly offered include matching educational gifts programs (60 percent), accident insurance (42 percent) and life insurance (25 percent). Travel expense reimbursement is provided by 96 percent of the insurers, the same as last year. The practice of providing directors' liability insurance decreased to 75 percent from 92 percent in 1985.

-Stock Ownership

Fifty-eight percent of the insurance respondents believe that all directors should own some shares of company stock, the lowest of all participating groups. In comparison, 81 percent of all respondents believe their directors should own shares of

stock. Of the 58 percent who believe that all outside insurance directors should own some company stock, the average minimum number of shares indicated was 736.

Seventy-eight percent of the insurers report that their outside directors do, in fact, own shares of stock in the companies they serve.

-Liability Insurance

Ninety percent of the insurance company boards currently have directors' liability insurance, although six percent had been denied coverage within the past year. Seventy-five percent of the insurance companies responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1986, up from 71 percent last year. The average premium increase jumped to 670 percent, up from 431 percent last year and compared with the 1986 overall average of 570 percent.

Forty-six percent of the insurance respondents experienced a decrease in total dollar coverage, up from 39 percent in 1985. The decline in total dollar coverage went from \$33 million to \$17 million or a 49 percent drop, compared with a 43 percent decline for all respondents (from \$42 million to \$24 million).

Twenty-three percent are considering self-insurance, about the same as last year and compared with the overall average of 30 percent. When asked if respondents had been approached to join a consortium, 50 percent of the insurers

reported in the affirmative, and 44 percent would consider joining if asked.

9. Board Practices and Policies (Table 9)

For the tenth consecutive year, the insurance company respondents averaged seven regular board meetings per year, one less than the average for all respondents.

An outside director of an insurance company devotes an estimated 134 hours annually to board-related business, up from 129 hours reported in 1985, and compared with 107 hours reported five years ago. This also is significantly higher than the 114-hour average reported for all respondents. The upper quartile average for insurers is 296 hours, up considerably from last year's 185 hours, and compared with the overall average of 204 hours (Table 9A).

Board chairmen of insurance companies spend considerable time on board-related activities, devoting an average 212 hours, up from 184 hours last year and more than any other responding group.

Based on reported compensation data, members of insurers' boards earned an average hourly rate of \$141 this year, up from the \$136 average reported in 1985. With committee fees taken into account, the average hourly rate for outside directors of insurance companies is \$182, compared with \$208 for all outside directors.

Twenty-one percent of the insurance respondents reported an outside director resignation during the past year, down from

26 percent last year. Fifty percent added one or more new outside directors to their boards, about the same as reported by all respondents. Twenty-five percent expect a board vacancy during the coming year.

In identifying and selecting new directors, insurance respondents continue to rely on recommendations by the board chairman and board members (each cited by 90 percent) and the use of nominating committee (reported by 63 percent), up from 52 percent in our Tenth Annual Study (Table 9B).

According to 90 percent of the insurance companies, broad management experience remains the primary consideration in asking a prospective director to sit on the board, followed by personal stature (65 percent). As in the past, strong financial skills, reported by 54 percent, up from 48 percent in 1985, was cited more than any other industry group as a primary consideration (Table 9C).

Twenty-one percent of insurance company respondents had a prospective director decline an invitation to serve on the board, up from 14 percent last year (Table 9D). Time commitment continued to be the primary reason for a prospect's declining an invitation to serve, cited by 70 percent, up considerably from 57 percent in 1985.

In 1986, eighty-three percent of the insurance respondents had mandatory retirement policies. The average retirement age was 68 for inside directors (up from 67 in 1985), 70 for outside directors, and 70 for board chairmen (up from 69 last year.)

The average age of the CEO at an insurance company is 59, and 60 for the respondents' outside directors. The average age of the youngest outside director is 46, the oldest, 71.

10. Issues (Table 10)

As with all respondents, financial results is the most important issue facing insurance company boards today. When asked to rank the relative importance of various issues, financial results placed well above the other issues. Ninety-eight percent of insurers ranked financial results first, second or third, up from 92 percent last year. Seventy-one percent placed strategic planning as the most important issue, followed by management succession, at 35 percent. Other significant issues include financing/capitalization (25 percent) and industry competition (23 percent). Day-to-day operations continued to decrease in importance from 39 percent in 1984, and 25 percent in 1985 to 17 percent this year.

Ninety percent of the insurance respondents spend the most board time on issues related to financial results, followed by strategic planning (44 percent).

When asked to project rankings for the most important issue five years from now, again, financial results placed first (83 percent), followed by strategic planning (65 percent) and industry competition (33 percent).

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TABLE 1 - PARTICIPATING COMPANIES

Fifty-one of America's major insurance companies participated in our Fourteenth Annual Study.

Size (Assets)	No. of Insurers	%
Under \$10 billion	40	78.4%
\$10 billion and over	11	21.6%
TOTAL	51	100.0%

Stock Exchange	No. of Insurers	%
New York Stock Exchange	17	33.3%
American Stock Exchange	1	2.0%
Over-the-Counter	11	21.6%
Mutual/Private	22	43.1%
TOTAL	51	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under \$10 billion	3	11	14
\$10 billion and over	3	15	18
Average	3	12	15

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	70.8%	47.9%
No	27.1%	47.9%
No response	2.1%	4.2%
	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

Function	1982 Insurance Companies	1986 Insurance Companies	1986 All Companies Surveyed
CEO/COO (other company)	---	81.3%	74.2%
Retired Executive (other company)	69.6%	68.8%	67.4%
Academician	66.1%	70.8%	49.7%
Senior Executive (other company)	85.7%	47.9%	46.0%
Woman	53.6%	62.5%	42.9%
Retired or Previously Employed Corporate Officer	53.6%	43.8%	40.2%
Attorney (does not provide legal services to the company)	39.3%	56.3%	35.3%
Major Shareholder (not officer of the company)	19.6%	25.0%	30.9%
Ethnic Minority Representative	28.6%	29.2%	29.5%
Former Government Official	32.1%	41.7%	27.6%
Commercial Banker	57.1%	43.8%	25.0%
"Professional" Director	17.9%	25.0%	25.0%
Investment Banker	17.9%	33.3%	24.3%
Attorney (provides legal services to the company)	21.4%	31.3%	23.7%
Non-U.S. Citizen	10.7%	6.3%	13.0%
International Executive (American)	8.9%	4.2%	6.2%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	33.3%	42.9%
Senior Executives (other companies)	20.0%	--
CEOs/COOs (other companies)	20.0%	14.3%
"Professional" directors	16.7%	7.1%
Attorneys (do not provide legal services)	16.7%	50.0%
Former Government Officials	16.7%	7.1%

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	1982 Insurance Companies	1986 Insurance Companies	1986 All Companies Surveyed
Audit	98.2%	100.0%	97.5%
Compensation/Personnel	78.6%	72.9%	90.5%
Executive	91.1%	89.6%	80.4%
Nominating	46.4%	54.2%	57.9%
Finance	60.7%	70.8%	34.6%
Benefits	17.9%	6.3%	25.0%
Public Affairs	16.1%	16.7%	9.9%
Corporate Ethics	16.1%	12.5%	7.2%

5B. What is the composition of each committee?

Committee	Average Inside Directors	Average Outside Directors	Average Number Directors
Audit	0	4	4
Compensation/Personnel	0	4	4
Executive	2	5	7
Nominating	1	4	5
Finance	2	5	7
Benefits	1	4	5
Public Affairs	1	5	6
Corporate Ethics	0	4	4

5C. How many committee meetings were held during the past twelve months?

Committee	1982 Average No. of Meetings	1985 Average No. of Meetings	1986 Average No. of Meetings
Audit	3	3	4
Compensation/Personnel	4	3	4
Executive	6	6	6
Nominating	2	2	2
Finance	9	13	12
Benefits	2	2	3
Public Affairs	4	4	3
Corporate Ethics	3	3	2

TABLE 6 - COMPENSATION

6A. Annual plus Per-Meeting Fee (90.0% of the Respondents)

Annual Fee Amount	%
Under \$5,000	4.7%
\$ 5,000 - \$ 6,999	4.7%
\$ 7,000 - \$10,999	18.6%
\$11,000 - \$13,999	23.2%
\$14,000 and over	48.8%
TOTAL	100.0%
Average Annual Fee	\$13,488

PLUS

Amount Per Meeting	%
Under \$250	4.7%
\$250 - \$499	2.3%
\$500 - \$599	18.6%
\$600 - \$799	39.5%
\$800 and over	34.9%
TOTAL	100.0%
Average Per-Meeting Fee	\$780

EQUALS

Total Annual Compensation	%
Under \$7,000	2.2%
\$ 7,000 - \$10,999	7.0%
\$11,000 - \$13,999	4.7%
\$14,000 - \$16,999	23.3%
\$17,000 - \$19,999	16.3%
\$20,000 - \$24,999	34.9%
\$25,000 and over	11.6%
TOTAL	100.0%
Average Total Annual Compensation	\$18,863

6B. Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	\$18,863	\$26,530
Banks & Other Financial Institutions	\$18,471	\$27,519
Retailers	\$22,249	\$30,875
Service Companies	\$20,653	\$28,542
Industrials		\$22,768
Under \$200 million	\$14,207	\$22,386
\$200 million - \$399 million	\$15,560	\$22,060
\$400 million - \$599 million	\$17,011	\$27,188
\$600 million - \$999 million	\$20,593	\$27,223
\$1 billion - \$2.999 billion	\$21,279	\$32,270
\$3 billion - \$4.999 billion	\$26,447	\$34,671
\$5 billion and over	\$28,820	
Average	\$20,462	\$28,715

TABLE 7 - COMMITTEE COMPENSATION

7A. What is the average committee fee for outside directors?

Committee	Member Average Per-Meeting Fee	Chairman Average Retainer
Audit	\$629	\$3,153
Compensation/Personnel	\$597	\$3,400
Executive	\$606	\$3,293
Nominating	\$615	\$3,500
Finance	\$668	\$3,331
Benefit	\$600	\$2,250

7B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1986 Average	1986 Upper Quartile Average
Insurance companies	\$24,406	\$38,073
Banks and Other Financial Institutions	\$21,500	\$33,168
Retailers	\$25,999	\$41,663
Service Companies	\$23,482	\$34,907
Industrials		
Under \$200 million	\$15,290	\$24,483
\$200 million - \$399 million	\$17,110	\$25,113
\$400 million - \$599 million	\$19,700	\$28,875
\$600 million - \$999 million	\$22,414	\$31,875
\$1 billion - \$2.999 billion	\$25,146	\$31,895
\$3 billion - \$4.999 billion	\$31,399	\$39,121
\$5 billion and over	\$36,548	\$48,428
Average	\$23,676	\$35,960

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1986 for all board services exclusive of any consulting arrangement?

Amount	%
Under \$11,000	6.5%
\$11,000 - \$16,999	10.9%
\$17,000 - \$24,999	21.7%
\$25,000 - \$29,999	17.4%
\$30,000 - \$39,999	19.6%
\$40,000 and over	23.9%
TOTAL	100.0%
Average	\$30,756

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	\$30,756	\$54,626
Banks & Other Financial Institutions	\$28,962	\$48,706
Retailers	\$27,051	\$46,080
Service Companies	\$27,890	\$43,353
Industrials		
Under \$200 million	\$18,075	\$27,639
\$200 million - \$399 million	\$20,111	\$31,534
\$400 million - \$599 million	\$19,288	\$26,900
\$600 million - \$999 million	\$25,526	\$38,211
\$1 billion - \$2.999 billion	\$29,297	\$41,511
\$3 billion - \$4.999 billion	\$37,184	\$50,677
\$5 billion and over	\$48,366	\$81,151
Average	\$28,572	\$46,665

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	4.2%
41 - 70	14.6%
71 - 100	27.1%
101 - 130	16.7%
131 - 160	10.4%
161 and over	16.7%
No Response	10.3%
TOTAL	100.0%
Average	134 Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	134	296
Banks & Other Financial Institutions	107	183
Retailers	86	134
Service Companies	108	197
Industrials		
Under \$200 million	94	149
\$200 million - \$399 million	99	184
\$400 million - \$599 million	106	200
\$600 million - \$999 million	120	215
\$1 billion - \$2.999 billion	109	174
\$3 billion - \$4.999 billion	137	249
\$5 billion - and over	153	254
Average	114	204

9B. How are outside directors located for the board?

	%
Recommended by chairman	89.6%
Recommended by board members	89.6%
Nominating committee	62.5%
Recommended by other corporate officers	41.7%
Referred by executive acquaintances	12.5%
Executive search	10.4%

9C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Broad Management Experience	89.6%
Personal Stature	64.6%
Strong Financial Skills	54.2%
Specific Industry Experience	45.6%

9D. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1985	% 1986
Yes	13.7%	20.8%
No	86.3%	79.2%
TOTAL	100.0%	100.0%

If yes, what are the predominant reasons?

	%
Time commitment	70.0%
Conflict of interest	50.0%
On too many boards	10.0%
Increasing legal liability	10.0%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	56.3%	93.8%	97.9%
Strategic planning	22.9%	43.8%	70.8%
Management succession	12.5%	20.8%	35.4%
Financing/Capitalization	--	6.3%	25.0%
Industry competition	12.5%	14.6%	22.9%
Day-to-day operations	4.2%	10.4%	16.7%
Mergers/Acquisitions	--	2.1%	8.3%
Executive compensation	--	--	6.3%
Shareholder relations	--	2.1%	4.2%

PROFILE OF KORN/FERRY INTERNATIONAL

Korn/Ferry International is the largest executive search firm in the world today.

Headquartered in New York and Los Angeles, Korn/Ferry maintains a worldwide network of 37 offices in 16 countries.

Korn/Ferry's practice is broad-based, serving the specific needs of clients through 10 specialty search divisions:

- Board Services
- Energy
- Entertainment
- Fashion/Retail
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- Health Care
- High Technology
- Hospitality/Leisure
- Real Estate

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